AMERICAN BANKERS ASSOCIATION JOURNAL

The Function of Banking

By HENRY FORD, AS TOLD TO SAMUEL CROWTHER

We Can Make Prosperity Continuous by Intelligent Planning. Unless the Five Day Week Is Widely Adopted, Producing Power Will Run Ahead of Consumption. Installment Selling Means Positive Decrease in Buying Power. What Banks Might Do.

MONEY is a commodity which is needed in a business just as iron, steel, cotton, wool, or other commodities are needed. The amount of money which any business requires may be fixed as definitely as the amount of steel or iron which it requires. The banks are not the source of money supply—they are just the agents of the owners.

The actual financiers of any business must be the people who buy from it. If there are not enough buyers to finance a business, then there is something so fundamentally wrong with it that no financing by bankers can do more than give the appearance of life to that which is already dead. The banking which assists a business to be prosperous is a service to the public. Such a business will soon do its own banking. The banking which looks upon a business as a thing to be financed for the profits of financing and not as an aid to its prosperity is not a service to the public. Unfortunately, the second kind of banking yields quicker and easier money than the first, although in the end it is only legitimate banking that really pays.

Money Needed Desperately

TAKE a case in point. Suppose the management of a business thinks that it desperately needs money and is willing to pay any amount to be tided over. Quite a number of foreign concerns seem to be in that condition. A banker says that he will lend money on terms. These terms work out so that the business is paying 10 or 15 per cent for the money it gets. It needs no argument to show that a business which pays too much for its money is in as dangerous a situation as a business which has to pay too much for its supplies. Nevertheless, the banker says that the risk justifies the high rate.

What happens? No business which serves can afford to pay 10 or 15 per cent for money. The mere fact that it may pay off the loan is not a proof of its ability to pay. It may pay the loan at the expense of its service; it may pay out of its profits and thus cripple its ability to extend; it may pay by cutting wages, which results in reducing purchasing power and in bad workmanship—and both reduce the market for goods; it may pay by lowering the quality of its product or by overpricing the product, and either of these courses also limits its market. The payment cannot be made otherwise than at the expense of service.

A business which thinks that it needs money desperately, never does need money. It needs better management, and the getting of money only serves to cover up the real faults and to make matters worse.

When Banks Are Useful

THE time when a bank can be most useful to a business in the supplying of funds is when that business does not need money to carry on its ordinary affairs. Those ordinary affairs ought to be financed out of current income, and if they are not, then there is something wrong with the planning. Being short of money is just as much the fault of planning as being short of iron or any other necessary supply.

All this would seem to go more to investment banking than to banking proper, but the principles are quite the same for either kind of banking. Every big failure which involves banks (and most big failures do) shows no great distinction between investment banking and deposit banking—excepting in name and detail. In fact, the two are bound up together.

The continued keeping in mind that money is a commodity and nothing more, and that its use is governed by business principles, will remove all of the evils from banking. These evils center around thinking that money makes the wheels go round, and that, therefore, the control of a business should be with bankers instead of with the actual managers.

Why Does Business Exist?

WHAT is the function of business? Why does business exist? Business is simply the organization of supply, and any unit of business can justify its existence only in proportion to the service it renders. Service means a great deal. It starts with design and comprehends making the best possible article in the best possible way and selling at the lowest possible price. This is an unending process, for no designs, methods or materials are ever perfect—all of them need constant revision. In our industries we take for granted that we are not doing anything as well as it ought to be done.

Striving to do things in the best way makes good workmen necessary, and these workmen ought to be paid the highest possible wages for the shortest possible working time. For a dozen years the Ford industries have been on the eight-hour basis with no overtime. Now we are definitely on the five-day week at six-day pay. We are committed to high pay and high leisure, not on humani-

tarian grounds, but because without leisure the workingmen—who are the largest buyers in the country—cannot have the time to cultivate a higher standard of living and therefore to increase their purchasing power. The high wages arm them with purchasing power and the leisure enables them to use the power. Cheap production and high wages fit into each other.

The cultivation of purchasing power is the most pressing need of industry. Unless shortly we have a widespread five-day week, the country's producing power will run ahead of its consuming power.

That, briefly, is our conception of business—of modern American business. It is very far indeed away from the thought that business is a matter of buying low and selling high. Only petty business can so function and only petty banking can so function.

What Buying Low and Selling High Does

BUYING low and selling high, and making no effort to develop purchasing power as one goes along, inevitably lead to the artificial saturation of markets—of course there can be no natural saturation. One of the fatal, underlying defects of the whole European financial and industrial structure is that it has no comprehension at all of building markets at home . . . of putting the worker in the way of buying what he makes. The lowest wage is there thought to be the best wage, and every effort toward economy gets around to lowering wages and lengthening hours. The highest price is thought to be the best price.

And so, instead of strengthening home markets, the attention is centered on developing export markets. English industry, for instance, thinks it cannot survive without exports. The industries of the Continent are on quite the same plan, and, unfortunately, banker control (and most foreign industries are controlled by bankers) goes on the principle that the service of a business is incidental, that business is business and that the way to make money is to buy low and sell high. Actually, the only reason for the existence of a business is its service, and the poorest way of all to make money is to put it first—that is, just "once-around" business and results in nothing worth while.

From a purely practical standpoint—whatever "practical" may mean—no one is smart enough always to buy low and sell high. It will be granted that we have had some experience in purchasing. Many years ago we found that it did not pay to buy our materials speculatively. We found that buying only according to our needs and at the best price we could then buy gave us lower prices over a term of years than the man who tried to beat the market. Speculation, all else aside, is only a waste of time. The man who thinks himself a successful speculator is only fooling himself.

What Henry Ford Thinks of Banking and Business

IT is up to us to make prosperity continuous and that we can do by intelligent planning.

The banking which encourages debt and seeks to keep people in debt is not needed.

A business which thinks that it needs money desperately never does need money. It needs better management.

A business which pays too much for its money is in as dangerous a situation as a business which has to pay too much for its supplies.

The man who thinks himself a successful speculator is only fooling himself.

Hard work, in the old physical sense, is out of date.

Most depressions come about through strangling buying power.

Less than half a dozen concerns in this country could cure any business depression by on the same day raising wages and reducing prices.

Unless shortly we have a widespread five-day week, the country's producing power will run ahead of its consuming power.

Installment buying has gone too far now. Too many articles may be bought on long term credit, and credit terms have become sales terms—which is always bad. More important is the positive decrease in buying power through adding an excessive cost for credit to the actual costs of the goods.

Producing the Right Article

TAKING business in its larger aspect compels us first to consider design and then management and finally labor. These three factors interlock. For instance, labor will not be productive unless management makes it so through designing the right article and the right way of making that article. When we have considered management and labor, we have also considered the public, for there is no separate buying public. There is no such division as capital, labor and the public—that is to say, there is no such division possible in a well-ordered community. The employer is a part of the buying public and so are his workmen.

Take this whole subject of labor. It is rather commonly misunderstood. There are three cardinal points at the labor end of the productive system, none of which can be disregarded. The first point is that hard work, in the old physical sense, is out of date. The laborious bearing of burdens and the fist used as a hammer and the arm as a lever did not accomplish much. And what was accomplished thereby did not spring out of free labor. In these days of wider work a man is regarded as better than a beast of burden, his human qualities are more highly valued; it is his character, his brain, not merely his brawn, that fit him to his part in the present system. It is a badly managed shop where men do what can be done by machines. The machine places the man in the position of mastery, which hard hand labor never does. When the achievements of modern industrial science are summed up, high place must be given to its ceaseless effort to lift the burdens off flesh and blood and place them on steel. Hard work is not productive; hard work does not pay; an industry founded on hard work and doing nothing to eliminate hard work is not and cannot be prosperous. Hard work means quite a different thing from what we have thought it to mean.

The second point is this: the effect of labor-saving devices is not to diminish the number of men employed, but to increase it. If the point just above may be referred to employers, this second point may be referred to employees. There is a suspicion among uninstructed men of the new efficiency methods being adopted. Maybe some of the so-called efficiency methods are not efficient at all, and should therefore be objected to. But, taking the main trend of progress in this respect, there is still suspicion and jealousy of all improvements which cut down the labor cost of various operations by reducing the number

of men required. It is as foolish to use the labor of seven men on a piece of work which could just as well be done by one man as it is to keep six men carrying bricks from one point to another and then carrying them back again merely to give them employment. One would think that the workingman himself would resent being kept on work that meant nothing but employment.

Labor Saving Puts More Men on the Job

MOST of the conclusions of those who would "defend" the workingman from the "encroachment of the machine" are drawn from thin air; they are not the conclusions based on experience. The experience of the Ford Motor Company would probably be admitted as competent. In few places has labor-saving policy been so insistently pushed—both as regards reducing the labor which men have to perform and reducing the number of men required to perform it—and the result is that where a seven-man job has been made into a one-man job, by the introduction of machinery, it has never meant that the extra six men were thrown out of employment; it has rather meant that twice the number of men were put to work.

And the reason is that where you reduce the cost of your goods, you increase the number of your customers, and this means an increased production which requires an increased force of employees. It is a rather notable fact that a company which has gone on for twenty years reducing the number of men per operation has gone on for twenty years steadily increasing the number of men employed.

Saving waste creates employment instead of diminishing it.

On the other hand, it is perfectly obvious that a concern which takes the course of increasing the number of men per operation would soon have no employment to give at all. Its goods would be too expensive to buy and too clumsily made to use. It would die. That is not the way to provide employment.

Another point is this: no business worthy the name should be financed out of the pay envelopes of its employees. A manufacturing institution that does not make a good wage for its workmen along with the commodity it makes for the public is not a good manufacturing institution.

Wages—good wages—is one of the products of a good business. It is one of the curious paradoxes of business life that the manufacturing concern which tries to give the lowest wages tries also to get the highest price out of the public for its commodity, whereas the concern which pays the highest wages will be found to be giving the public the highest value for its money. The advantage of a right method is that it is right all round, and one thing done right leads on to another, and that to another, until the circle of benefit is complete.

Making Prosperity Continuous

THE field which American industrialists and bankers have before them is immeasurably broad. An immense amount of work stands crying to be done. The United States, as compared with the world, is prosperous. It is up to us to make that prosperity continuous, and that we can do by intelligent planning. But while the United States is by comparison prosperous, it is not prosperous in all its sections. A prosperity which is to some extent sectional is far better than none at all, but it is not something to be satisfied with. Our prosperity ought to be and can be universal and continuous.

This is an affair for bankers. Everything is an affair for bankers, because money considered as a commodity is a universal necessity. The banking, however, which encourages debt and seeks to keep people in debt is not needed. Money as a steady diet does not make for either industrial or agricultural health.

Take the question of continuous prosperity. Prosperity grows out of confidence in the future, and to have that confidence one need be neither an optimist nor a pessimist. An optimist is no more to be trusted than a pessimist. Prosperity and depression do not of themselves come in cycles. True prosperity is the normal functioning of supply and demand. True prosperity results from high wages and low prices. Most depressions come about through strangling buying power. Under the old selling-high theory of business, rising prices were taken as an indication of prosperity. Salesmen always advised buying heavily on a rising market in order to avoid having to pay more in the future. Thus a rising market is falsely stimulated. This leads to speculation and to forced production. The brisk trade is usually among the middle men, for people in general do not buy more because prices are going up. They buy less. And just about the time when prosperity is supposed to be in full swing, someone discovers that the consumers have silently gone on strike. Then the factories shut down and in doing so remove from the market the great buying power of wages. The bankers who have been advancing money on a rising market shut off credit and the country goes into stagnation—not because anything has happened to the country but because unthinking men have killed the markets.

This sort of thing can be prevented by business men and bankers centering their attention on getting the kind of management that reduces prices and raises wages. Less than half a dozen concerns in this country could cure any business depression by on the same day raising wages and reducing prices.

Importance of Management

MANY sections of our country are far from prosperous, not because they lack natural resources—natural resources are not all-important anyway. Management brains are much more important. These sections of the country are lacking in prosperity because they are without leadership. Our country grew up along the Atlantic Seaboard, and for a time it was thought that all industries had to be in the East. But in a few years we have seen the South becoming industrial without losing any of its agricultural wealth. Men have found that they can put their cotton mills there to better advantage than in the crowded mill towns of the North.

The same process can be extended all over the country and with like economies. It is a duty of progress as well as an excellent way to earn larger profits actively to forward this development.

This country is far too big to have centralization. The large corporation is necessary if even the most elementary economies in production and distribution are to be had, but it so happens that the large corporation is more easily decentralized than the smaller company. For with the accurate workmanship of standardization, the various parts of any product may be made at whatever point in the country they can be best made, and then they can be assembled at the point of use. This saves transportation and also it saves the unnecessary overhead of maintaining too large a factory in one place. We no longer manufacture motor cars. We make parts of motor cars. These parts are made in various factories scattered all over the country and, in fact, pretty much all over the world. The parts are assembled into motor cars at stations near the point of use. This same sort of decentralization can be, and to some extent is being, practiced by an increasingly large number of industries.

Installment Selling is an Industry of Debt

THE extension of prosperity is under way, but also a practice is rapidly growing which may call a temporary halt to our progress. It is a subject primarily for bankers. It is what might be called the "industry of debt."

A certain amount of credit is essential for the proper conduct of business. The Ford industries have found it economical to operate on a cash basis, and also we plan our affairs to keep enough cash on hand for our necessary expenditures over a period, with something additional to meet expenditures for improvements and the like. We prefer to be on a self-contained basis and to have the banks pay interest to us rather than to pay interest to the banks. Any business which is heavily in debt is not its own master and cannot progress as rapidly as one which is free. That, however, is not the present point.

The present point is the industry of debt which has grown up between the manufacturer and the consumer, or between the distributor and the consumer through finance companies which permit the consumer to pay his debt in installments over a long period.

Installment buying has been useful under certain circumstances. It may be a method of saving, and the possession of the article before it is paid for may stimulate saving. But the thing has gone too far now. Too many articles may be bought on long-term credit, and credit terms have become sales terms—which is always bad, because this leads to overbuying and also to careless buying, and thus lessens the effectiveness of buying power.

Decreasing Buying Power

THERE are dangers and very decided dangers in all this. There is, first, the taking away the buying power of an individual by involving all his income in pledges. That is important, but holds its own cure. More important is the positive decrease in

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The Clipped Coin

(The Journal Cover)

"THE Clipped Coin," the first of the picture covers which will hereafter appear in the JOURNAL is from an original painting by Walter de Maris, the American artist with whose work Americans have for years been familiar. Readers will remember the series from his brush published last October in this magazine commemorating the fiftieth anniversary of the American Bankers Association.

The cover pictures now beginning on the JOURNAL will, in a sense, be a continuation of that series and, like those of last October, will portray and symbolize important events or human interest phases in banking and business practice.

THE practice of clipping coins belongs to another age when thrift was thrift and pilfering was picayunish compared with the practices of the average miscreant of today.

When a coin back in 1770, or thereabouts, passed in turn through the hands of a number of persons each of whom sought a little unwarranted gain for himself by clipping a bit of gold from it or by rubbing off some of the valuable metal, then it soon lost its mint value and could be accepted in trade only at its weight. The practice was annoying and an obstruction to trade since the weighing of coins was a nuisance and, moreover, led to disputes, disappointments and perchance to the raising of questions as to the good faith of the two parties to an ordinary transaction.

"In New York, as in other places," says the Journal of American History, "it was impossible to prevent the clipping and sweating of the gold coin in circulation. The Chamber of Commerce as early as 1770 had stigmatized it as an evil and scandalous practice, and had passed a resolution agreeing not to take the light coins except at a discount of four pence for each deficient grain. The Bank (Bank of New York) experienced a great deal of trouble from this source in the commencement of its business, and Hamilton was occupied for some time in devising a method of receiving and paying out gold. The practice of weighing it was attended with many difficulties but it was not easy to find a substitute."

MR. DE MARIS' picture illustrates a then common incident when a customer went to his bank.

Now, the Federal statutes provide drastic punishment for anyone who mutilates, impairs, diminishes, falsifies, scales or lightens not only United States money but any foreign gold or silver coins in actual use or circulation anywhere within the jurisdiction of the United States. The penalty may be $2,000 fine or imprisonment for five years. The milled edge on coins is a device to prevent rubbing. Without it a coin might be robbed of some of its weight; with the device, pilfering is at once detectable.

THE November cover will portray the first big money transport ever made in the United States—it was an event of great importance in the struggle which the Americans were at that time waging for independence. The difficulties of that struggle may be visualized by the picture based on the transfer, probably for the first time in America, of a large amount of real money. Someone has said that every real picture should be a window. In this case the November cover picture is a window through which we get a view of money transportation strangely contrasting with the present day methods of shipping by rail or remitting by mail or telegraph.

Watch for the November JOURNAL and read the little sketch discussing the event.

Can the Small-Town Bank Survive?

By ROSCOE MACY
Cashier, Bank of Lynnville, Iowa

The Capacity for Giving Personalized Service Insures the Permanency of the Small Community Bank. Knowledge of Customers and Their Affairs Makes Possible Many Economies Denied City Bank. The Story of a Cheque Written on a Shingle.

A NUMBER of experts are now coming forward with the prediction that the day of the small-town bank is on the wane. It is their idea that good roads and the automobile are steadily bringing the country nearer the city, and that the time is fast approaching when the little country corner institutions will be unable longer to compete with the larger organizations. In this day of mergers and mammoth branch banking systems, they feel that the little fellows cannot long escape absorption by their more heavily capitalized competitors.

When that time comes, we fellows who do practically everything in our own particular little banks, from sweeping the floors, to lending the cash, will find it necessary to specialize in either sweeping or lending—probably with the burden of proof on us to demonstrate that our forte is lending rather than sweeping. Worse than that, we must remember that whereas the larger banks, which according to these prophecies, are to absorb us, are already provided with respectable forces of lenders, the competition in the sweeping field is also arduous, so that it is not unthinkable that we may all have to enter into some entirely new line of activity, and some of us may even end up as bill collectors for hand laundries operated by our wives.

This is a gloomy picture for those of us whose wives are not strong—so gloomy that the writer is tempted to attack these conclusions of the experts, and advance some arguments against the idea that the one-horse bank has lost or is losing its title to a place in commercial society.

Human Element Important

FOR us there is some encouragement in the thought that not all phases of the country banking situation are subject to cold two-plus-two reasoning; that the human element, which plays so large a part in the operation of the "neighborhood" bank, is something that cannot be reasoned nor legislated out of the way. Every little bank in the country has its customers who would bury the family funds at the roots of the third apple tree in the second orchard row before they would think of deserting the home-town bank for a city institution. And every such customer will have his own reasons for his attitude, which are sufficiently cogent to govern his actions, whatever the experts may think of them.

In our own territory we have seen these little banks paying 5 per cent interest on deposits during the war, and lending at 8 per cent while other banks within fifteen and twenty miles paid 4 per cent and made loans at 6 without any considerable effect in either instance on the volume of loans or deposits. Is that to be explained by mathematics?

We fellows do practically everything from sweeping the floor to lending the cash.

It is urged that the larger banking systems can practice innumerable economies not available to the small institutions; that their larger capitalization and more diversified clientele renders them safer depositories, and that the fact that their funds come from various classes of depositors and many different lines of business, and, in the case of branch banking systems, from over a large territory, renders them less susceptible to seasonal fluctuations in various lines of business than is the case, for instance, with the small bank catering largely to farmers or operatives in any other single line.

It is impossible to deny the large grain of truth in all these arguments; all we can do is to urge our belief that not one of them, nor all of them together, will control the situation. Nor is the grain of truth altogether unadulterated.

The small bank also has its own pet economies which cannot be practiced by its competitors in the cities, and it has its own methods for safeguarding its depositors' funds in time of stress, and of making provisions for seasonal fluctuations in customer operations.

It is, of course, undeniable that the large bank has one great advantage over its smaller neighbor in its ability to purchase supplies in large quantities. It can indulge in lithographed checks, ledger sheets and letterheads without paying any more per unit than the small bank, purchasing in lesser quantities, would have to pay for printed supplies of the same sort.

But there is an easy way around this for the little fellow. He can (and a great many of us do) buy the printed stuff. So far as we can see, it answers our purpose in nearly every respect, nor do our customers make any audible objections. If they notice the difference at all, they recognize that in banking with us they

are getting something else not available in the city to offset the dinginess of their check books.

Furthermore, intimate acquaintance with each of our customers enables us to eliminate many items of detail which are of course a matter of necessity in a city bank. The signature file used in our local bank would be an object of derision to one of our city brethren, yet in some thirty years of banking we have yet to see the successful forgery of a check on a customer of ours.

Many of our depositors request that their current statements of account be carried forward on a single page until they call for them—which they do every two, three, or even six months. This effects for us a considerable saving in postage, clerical work and statement sheets. Practices such as this might well be calculated to cause the city banker to shudder and exclaim of false economy, but a knowledge of the situation renders them as innocuous in their appearance to us as history has shown them to be in reality.

These are typical economies, to which might be added a host of others which are exercised regularly by one or another of those banks in which the officers can rely on an intimate knowledge of each individual customer to safeguard the interests of the bank.

It is unfortunately true that the lay mind, especially in the small communities, is apt to attribute a special degree of safety to the bank with large marble pillars at its portal; the man in front of the counter often accepts $1,000,000 totals as indicating in themselves greater strength and stability than $1,000 ones.

Luckily for us, however, the small-town mind does not confine itself to this one standard in its judgment of banks. The farmer or corner-store merchant who takes it for granted that the large bank in the neighboring city is a strong one because it "has a lot of money," is just as sure that the home-town institution is also safe, simply because he knows old man Watkins, who runs the bank. He doesn't know the officers of the city bank except by hearsay; he understands that they turn big deals, and infers that they must take commensurate risks. He knows that Watkins, on the other hand, deals in smaller amounts, and he has his own borrowing experience to prove that the old man takes little or no risk.

The large institution is seldom crippled by the seasonal depressions and inflations that affect certain lines of business or certain localities, because its diversity of custom makes it possible to divert idle funds from one branch or department to meet sudden stringencies in another. The small bank with a restricted clientele meets the situation from another angle. The management has learned through experience to anticipate the probable occurrence and extent of the fluctuation, and provides for it, where necessary, by either encouraging or limiting the borrowing of money for non-essential purposes. Referring again to our local bank, we have never had to resort to borrowing except in such times of abnormal stress as the Liberty Loan campaigns and the period of agricultural deflation in 1920.

There is nothing, therefore, in the aspects just considered which needs be conclusive either for or against the continued dominance of the small-town bank in its own particular field. Both the large system and the small banking unit have each its own economies, its elements of safety and its fluidity of resources peculiar to itself.

But there is another phase of the question in which the little bank has all the advantage—a

We local bankers have perfect cognizance through long experience with the farmer's problem

characteristic common to most of the country corner counting houses, which the city bank can never hope to duplicate. The rock upon which the little bank may depend for permanence is its capacity for "personalized" service.

I mean by that the ability of the small bank, through its operating force, to treat each customer as an individual to a degree impossible in the larger institutions. The "one-man banker" can attain a degree of intimacy with his deposittors and of sympathy with their problems, which in the very nature of things is denied to the officer of the city bank.

Large banks, in which the handling of the rank and file of customers' accounts is of necessity a process of more or less impersonal routine, must have their certain set rules and regulations to which every such customer is required to conform; the smaller institutions, with their more intimate knowledge of individual depositors, can with safety and convenience permit variations in the handling of accounts which, if practiced in a large bank, would soon bring about a state of chaos.

John Jones, a poor penman, will stick by his local banker because the latter always fills in his counter cheques for him, casually and as a matter of course. Jim Brown will bank where he can telephone orders for the payment of money or like transactions, have his voice recognized and the payment made as directed without delay; the local banker, knowing Jim, feels safe in making such payments without a signed voucher.

A Cedar Shingle Cheque

IN our bank we once cashed a cheque written out on an ordinary cedar shingle; a debit slip was run through the books and the shingle filed as a voucher. Fancy the city bank dealing with such a situation! Imagine the agitated clerks, the bookkeepers giggling in a corner, a teller wiring the depositor for confirmation of the order to pay—perhaps a specially called directors' meeting to grant the necessary authority.

In our case we felt that the item was self-authenticating; no one but Bill Brooks would be "damphool" enough to think of such a thing.

It is true that countless large banks are furnishing service of this general nature, but it must be only a remote semblance of the sort of thing we fellows out here do as a part of our everyday routine. The officer in the large bank may know his particular customers by their first names, but it is not likely that he knows their children, or their grandparents, or how they get along with their neighbors across the street.

We are actually close to our customers in their everyday lives; their daily problems are in large measure our own; we can see them through their own eyes, and our sympathy is natural and effortless. On the other hand, there is almost certain to be an element of artificiality in the intimacy of the city banker with the general run of his customers if he makes any attempt to attain any such relation. He does not see them every day on the street or about their homes; their personal interests are in no sense his. [I have often laughed with a farmer customer at his description of the attempt of a city banker to discuss farm problems with him—problems of which we local bankers have a perfect cognizance through long experience, but which the man out of touch with the farm is unable to grasp with understanding.]

The man who has been "under the weather" for a few days likes to have his banker, among others, note his reappearance on the streets and congratulate him on his convalescence. Only a neighborhood resident is likely to be able to keep tab on the intricacies of family interrelationships in the small community, and to steer clear of complications that easily arise out

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The Country Bank and the Federal Reserve System

By GEORGE R. JAMES

Facilities of Reserve System Available to the Smallest and Largest Banks on Same Terms. How Giving Immediate Credit for Items Deposited by Member Banks Would Reduce Interest Rates. Member Banks Make More Money on Invested Capital.

I DO not share the opinion one frequently hears to the effect that the Federal Reserve System is an independent organization and that it is owned by the member banks. I feel that the public has quite as much interest in the Federal Reserve banks as have the member banks themselves. This public interest centers in our government. As a citizen, the country banker, whether his bank is or is not a member of the Federal Reserve System, has an interest in the System growing out of his citizenship.

True, the reserve deposits of the member banks may well be said to be the foundation of the Federal Reserve System, and it is also true that the capital stock of the Reserve banks was supplied by the member banks. But the act of Congress, under which the System was established, provided at the outset that "Should the total subscriptions by banks and the public to the stock of said Federal Reserve banks, or any one or more of them, be, in the judgment of the Organization Committee, insufficient to provide the amount of capital stock required therefor, then and in that event the said Organization Committee shall allot to the United States such an amount of said stock as said committee shall determine."

The application of the provisions of the law governing the division of the earnings of the System in the past results in the capital account of the Reserve System being one-third under the ownership of the member banks and two-thirds (representing the surplus) belonging to the Treasury of the United States.

Neither must we forget the fact that the government stands squarely behind the notes of the reserve banks, which notes play such an important part in providing a currency for the nation. Even though by any combination of circumstances all of the gold held by the System should be taken away and out of the country, still these notes backed by the integrity of our government would be worth 100 cents on the dollar.

Not Money Making System

IT is perfectly clear that the reserve banks were not created to make money either for themselves or for the member banks beyond the 6 per cent interest on the money invested in the capital stock. It is equally clear that the System was designed to be an aid to agriculture, industry and commerce, or, in other words, the public, although, as I said before, it functions through its member banks.

The law does permit the Federal Reserve banks to perform certain services for the member banks without charge and at the expense of the reserve banks because it was believed that the reserve banks could reduce the costs of performing these services, and the services now rendered by the Federal Reserve banks are performed at a saving in cost that is far greater than was originally anticipated. The cost of the collection of checks, transfer of funds, and handling of currency by the Federal Reserve System is only a small percentage of what those functions cost when performed by individual banks. The economies that are possible through mass production apply with equal force in the Federal Reserve System as they do in the plants of the Ford Motor Company.

The major earnings of the Federal Reserve banks arise out of the interest charged member banks when the member banks borrow. They are increased or diminished only as the requirements of the member banks dictate. And, perhaps, it may be important to state that the facilities of the Federal Reserve System are available for the smallest and for the largest member banks on exactly the same terms and conditions.

The so-called free service which the Federal Reserve System renders to its members is in the last analysis given at the expense of the public, and I feel that this great American public should be in a position to inquire whether or not it is getting the benefit of these services, and if not, why not?

Why Banks Do Not Join

A GOOD part of my time has been taken up in the study of the question, "Why so many banks do not belong to the Federal Reserve System," but I am still unable to get anything like a satisfactory answer to this problem. The fact is that when I sum up the replies I have seen or heard, I reach the conclusion that an alibi or an excuse has been offered in lieu of reasons.

One of the popular answers to the inquiry as to why non-member banks do not join the Federal Reserve System has been that the System does not pay interest on reserve deposits, whereas, by keeping their reserves with some city correspondent bank they do receive interest on their balances; in consequence, in the one case they get no return on their reserve balances; in the other, they make a profit. The city banks which act as correspondents for country banks have quite a way of requiring "commensurate balances," and there are mighty few of them but what make a profit out of the country bank's account.

Every now and then we have the suggestion offered that the reserve banks should give immediate credit for items deposited with them by their members on the theory that "it would not cost the System anything to do so," but anyone who holds this view is very greatly mistaken. Experience has shown that member banks borrow from the reserve banks almost entirely for the purpose of replenishing their required reserve balances, and the moment their balances at the reserve banks are in excess of the legal requirements, the excess is immediately used to retire the borrowings.

If you will notice the "Report of Condition of the Federal Reserve Banks," published weekly in the leading newspapers of the country, you will find that the item listed in the assets as "Total Bills Discounted" very closely approximates the amount of the item listed in the liabilities as "Deferred Availability Items." In other words, the direct borrowings of member banks, except for infrequent peak periods, offset the "float."

To give immediate credit would cut the

earning assets of the reserve banks very materially. Calculated on the last report available, it would mean approximately 50 per cent. If the reserve banks should replace these direct borrowings by purchases in the open market, this would cause inflation that I should regard as both unthinkable and unpardonable, and it would also work a tremendous hardship on the commercial banks of the country by unnaturally forcing a reduction in rates. Possibly the effect upon the country banks would be less noticeable at the start than would be the effect upon the larger city banks, but it is certain that it would reach even the smallest and most remote banks through competition in one form or another.

It is extremely difficult, if not impossible, to get accurately the effect giving immediate credit at the reserve banks would have on general interest rates, but my guess is that it would cause a reduction of more than 1 per cent. So, from the standpoint of the commercial banks only, and without regard to or for the Reserve System, see what price would be paid for getting this immediate credit. Say, a bank with $200,000 of deposits and loans amounting to $150,000—such a bank might reasonably be expected to have something less than $5,000 of items in process of collection, which at 4 per cent, the present rediscount rate, would mean that "immediate credit" resulted in a saving of $200. But as an offset to this, consider the meaning to that bank of the forced reduction in interest rates to its customers. If the reduction was 1 per cent, it would make a net loss of $1,300 to the bank. This is among those things that should be considered and figured on with a very sharp pencil.

The Exchange Charge

ANOTHER reason frequently offered by country bankers in the South for not joining the Federal Reserve System is that they are denied the right to charge exchange when remitting for their checks. One so-called banker asked in my presence on one occasion: "What *right* has the Federal Reserve System to deny my bank the right to charge exchange?" To this I very promptly answered by asking him the question: "What *right* have you to deduct anything when paying a customer's check that is presented either over the counter or through a Federal Reserve bank?"

It is true that in the old days prior to the establishment of the Federal Reserve System it was necessary for banks, in order to pay their customers' checks when the payee of the check lived at a distant point, either to ship the currency or else maintain balances with correspondent banks against which they could draw, and, of course, in either case this costs money and the banks were entitled to collect for the service. But with the coming of the Federal Reserve System this situation changed. The cost of shipping currency is absorbed by the reserve bank, and it is not only less expensive, but it is safer and more convenient for a bank to pay the checks of its customer when they are presented through a reserve bank than when presented by the customer at the teller's window. Anyhow, the Supreme Court of the United States has settled the question and has established the "right," once and for all, of the requirement that member banks shall remit at par for all checks sent for collection through the reserve banks.

Furthermore, this right and principle has been recognized by 90 per cent of all banks in the United States, and today every bank in the first, second and third Federal Reserve districts is a member bank or is on the par lists of the reserve banks.

Joining Will Not Disrupt Relations With Correspondents

IT seems quite possible that some country banks have been kept out of the Federal Reserve System because they did not want to disrupt their relationship with their city correspondents. The chances are that the relationship has been and is most pleasant and, in the main, satisfying, but joining the Federal Reserve System does not mean that this relationship should be broken; not by any means, although it would make a change in the nature of the relationship and a change which in my opinion can and should be of advantage to both parties. Undoubtedly, the city correspondent bank can and will find a way for rendering a service that will fully justify the country bank in carrying a balance. I do not for a minute advocate cutting out the city correspondent, but I do urge the country banker to make available for his community every facility the government provides as an aid to the business of the country.

Another thing, I wonder if the bankers, particularly the country bankers, realize what a great change has taken place and is now taking place in the business methods and conditions of this entire country? Think of the evolution in methods of transportation in the past twenty-five to thirty years! Think of the passing of the ox cart, the horse and buggy and the steamboats! Recall for the moment the coming of automobiles and good roads, the increased use of the telephone and the inauguration of the rural postal service! Then think of the development of chain stores and the growth of large department stores in cities and what these are doing to the cross-roads storekeeper and the small-town merchant!

Do not overlook the shifting of the population from farms to cities, and keep your eye on the cooperative movement and its effect on the marketing of agricultural products.

All of these things have a direct bearing and must be taken into account when figuring on whether or not it pays to belong to the Federal Reserve System, and it would be well to take notice of them whether the country banker considers joining the System or not, for they are vital factors in his future—he may be certain of that.

After all, as I see it, the changes that are taking place in both the business and social life of the nation are only the working out of nature's laws of the survival of the fittest. The American public not only demands but it is entitled to the best, and the individual or the organization that provides the best service is the one who will survive. And this applies to banking just as well as it does to any other line of business.

There have been a great many bank failures in the United States during the past few years. A small percentage of them—and a small percentage only—have been members of the Federal Reserve System, but *not one single one of them* failed that had lived up to the letter and spirit of the law and the rules and regulations of the Federal Reserve Board.

I do not for one moment mean that being a member of the Federal Reserve System guarantees deposits, nor does it insure the public and the depositors against dishonest or incompetent banking, but I do say that when a bank is a member of the Federal Reserve System, and its business is conducted within the limitations and restrictions laid down by the law and the rules and regulations of the Federal Reserve Board, *that bank cannot fail.*

A very careful analysis of the earnings of the something like 30,000 banks in the United States shows that the member banks which live up to the letter and the spirit of the law and the rules and regulations relating to the Federal Reserve System make more money on the capital invested than do those banks on the average that are not members of the System.

It is my judgment that if and when a commercial bank finds out that it cannot make money for its stockholders as a member in good standing of the Federal Reserve System, then the best thing that bank can do in the interest of its depositors, its stockholders and its community is to liquidate and get out of the way, for certainly there are too many banks in this day and time for the business now available.

I urge bankers to look upon the law and the rules and regulations of the Federal Reserve Board not as restrictive measures, intended to harass and handicap, but as a standard of good banking, for, after all, that is exactly what they are. It may seem to the non-member country banker that the requirements of the reserve banks, relative to the paper that is to be discounted, are difficult to meet, but that is not the case.

A Few Suggestions

I WOULD say to country bankers: Do not be afraid to ask your borrowing customers for a statement or to insist that they carry a balance with you as a reserve against the loan. Surely you carry reserves against your obligations to your depositors, not because it is the law, but because it is good banking. Good for you as well as the depositor. It is equally good for you and for your borrowing customer to require him to keep a reserve.

Do not stick to the antiquated methods of getting your accommodations for seasonal needs just because it seems to be the easy way.

The future of the country banker will rest upon his ability to meet changed conditions by adopting the new methods. His road is not going to be an easy one. Most likely it is and will be full of ruts, but the only difference between a rut and a grave is that one is longer and the other deeper.

Study your position and do not be ashamed to acknowledge mistakes or to learn from the experiences of others.

My last and possibly most important suggestion is that you keep in mind the slogan: "United we stand, divided we fall." And then, if you have not already done so, join the Federal Reserve System.

Results Under Departmental Banking

By H. H. PRESTON

Separation of Capital and Assets Between Commercial and Savings Departments Works Out Successfully in Practice. Experience in Oregon Shows Savings Depositors Have Greater Protection in Case of Bank Failures. Arguments Pro and Con.

SPECIALIZATION was the dominant idea in banking, as in other forms of business organization, during the nineteenth century. This was reflected in the legislation and literature of the period. But in recent years the theory and practice has been changing.

The Federal Reserve Act permitted national banks to establish trust departments. Real estate loans, prohibited in national banks for fifty years, were also authorized on a limited scale. Savings departments in national banks, although already in existence, were first given definite recognition in 1913. Bond departments are being opened in the commercial banks generally. The McFadden bill contains a section which would be the first definite legislative recognition of their existence in national banks. Similar trends are noticeable in state banking, although on the whole the powers of state banks have always been broader. The specialized commercial bank has given way to the modern department store of finance.

Pacific States Lead Way

TWO Pacific coast states—California in 1909 and Oregon in 1925—have provided that a bank may combine under one roof the trust, savings and commercial departments but when it does so is required to allocate a definite proportion of capital and surplus to each department, maintain separate reserves and hold the assets belonging to each department for the repayment of the depositors of such department in the event of liquidation. The laws further provide that the assets of the savings department must be invested only in the classes of investments legal for savings banks, under the laws of the respective states.

This is the form of banking regulation known as departmental banking and is attracting a great deal of interest in the other western states. The Idaho legislature in 1923 authorized a special banking code commission which brought in a report to the following legislative session. The new code, recommended by the commission and adopted by the legislature, did not contain any provision for segregation of assets or departmentalization. In fact, the commission specifically recommended against such a law for reasons which will be discussed later. The subject of departmental banking has been a live topic in Washington for several years. It has been debated at open forums of the American Institute of Banking, it has been discussed at several group meetings of the bankers and it has had a place on the programs of the State Bankers Association.

Segregating Assets

THE experience of California and Oregon under a departmental banking law is of live interest to bankers in other states because there is a pronounced trend in this direction, due to the tendency of the modern bank to become "a department store of finance." In this article, the author recites what the results have been in these two states and gives the arguments for and against the segregation of a bank's assets as called for by this legislation.

Departmental banking, however, is not a sectional question. Moreover, it is not a new principle in American banking. The Federal Reserve Act, as first passed by the House in 1913, contained such a section. Laws which require that savings deposits be segregated and invested in restricted classes of securities are in force in at least ten other states. With the exception of Oklahoma, whose law was passed only in 1925, these states do not require that the capital be allocated to each department. The Oregon and California experience may therefore be regarded as practically unique.

Protects Savings Deposits

DEPARTMENTAL banking is intended primarily to protect and encourage savings deposits. The rapid increase in the time and savings deposits in commercial banks in the past two decades is one reason why the plan is attracting special interest now. Accordingly a brief review of the development of savings departments in commercial banks will precede our analysis of the merits of departmental banking.

Before 1913 the National Banking Act made no distinction between demand and time deposits. The same reserves were required for all deposits and all funds were invested in the same way. There was nothing in the law to authorize or prohibit the creation of savings departments. Savings departments began to develop in the 90's and about twenty years ago the Comptroller definitely authorized national banks to operate savings departments if the directors deemed it expedient to do so.

Reports of savings departments were first made to the Comptroller in 1908. These early reports are incomplete but supplementary data were obtained from all banks by the National Monetary Commission as of April 28, 1909.

The number of institutions, volume of time and savings deposits and the relative position of the several classes of banks is shown in the accompanying table for 1909 and 1925. Making due allowance for the incomplete data in the earlier report it will be noted that the volume of savings business has increased more rapidly in commercial banks than in the savings banks and that national banks show the greatest relative increase.

Time and Saving Deposits in Banks

Kind of Bank	April 28, 1909			June 30, 1925		
	No. of Banks	Amount (000 omitted)	Per cent of total savings Deposits	No. of Banks	Amount (000 omitted)	Per cent of total savings Deposits
Mutual Savings Banks	642	3,140,436	51.08	611	7,139,500	34.18
State Banks and Trust Companies	13,459	2,206,589	35.89	19,635	7,837,395	37.52
National Banks	6,893	743,065	12.09	8,072	5,744,300	27.50
Private Banks	1,497	57,899	.94	523	34,405	.17
Postal Savings					132,173	.63
Total	22,491	6,147,989	100.00	28,841	20,887,787	100.00

No special restriction is placed upon investments of savings deposits of national banks or of the state commercial banks in a majority of the states. A national bank is required to keep separate books of account for the savings department and is allowed to carry a reserve of only 3 per cent against all time deposits. Moreover one-third of its time deposits may be invested in real estate mortgages. This limited right is not very largely used partly because the city mortgages may run only one year and partly because of the ingrained prejudice of the commercial banker against non-liquid loans. The amount of real estate loans made under Section 24, of the Federal Reserve Act was $391,461,000 on June 30, 1925, only slightly more than 3 per cent of the total loans and discounts of national banks on that date. For the most part time deposits are used in the regular commercial loaning operations of the banks. The assets are not kept separately and, in the event of liquidation, demand and time deposits share equally.

Why Separate Departments

WHAT arguments based upon theory and practice may be urged in support of separation of departments in the modern bank?

From its very nature the trust business is recognized as distinct. Any national bank which exercises trust functions, must establish a separate department and keep its trust funds separate from the other funds of the bank. There can be no mingling of trust and commercial funds. Segregation in this department is universally complete.

Is there any essential difference between the savings and commercial deposits which warrant separate treatment? Side by side in the savings department of the bank may be found various classes of accounts. Some of these time or savings deposits are the surplus funds of commercial depositors that have been transferred temporarily to a savings account to earn interest. Still other cases are found where a small depositor uses a savings account to avoid service charges on checking accounts. The presence of these various classes of deposits in the savings department has led to the contention that there is no real basis for segregation.

The fundamental reason for the savings bank, however, is to take care of the savings of the persons whose accumulations are too small or their experience too limited for them to make their own investments. The advertising of the savings department in the commercial bank is directed largely to attract deposits from this class.

It is this class of savers for whom provision is made in the savings bank laws, which limit the maximum amount of an individual account, restrict the investment of funds and in other ways provide in every way humanly possible for the safety of the deposits. Making due allowance for exceptions, it may be fairly said that the savings depositors in a bank have less knowledge of business and have a larger proportion of their assets represented by their savings account than the commercial depositors. Moreover they do not ordinarily demand credit of the bank. It is for the protection of deposits of this class that segregation of the assets of the savings department is proposed.

It has been contended that if the bank as a whole is sound no deposits are ever in jeopardy. Obviously this is the case and departmental banking is not suggested as a substitute for sound banking. On the contrary, it is believed that it promotes sound banking principles by restricting the savings department to the class of investments proved by long experience best suited for savings and the commercial department to a commercial banking business. A departmental bank law does not have in mind merely the failed bank. But the cold facts, as given in the 1925 report of the Comptroller of the Currency, are that 2486 banks with total liabilities of over three-fourths of a billion dollars closed in the five years following the crisis of 1920.

There has fortunately been little opportunity in California to observe whether or not departmentalization gives greater protection to savings depositors in the event of bank failure. Only five failures of state banks have occurred since 1911. Savings depositors have not lost a dollar due to failures and little, if any, will ultimately be lost by the commercial depositors. This splendid record is an important reason why the California Bank Act is carefully analyzed by students of banking legislation.

In Oregon the law providing for complete departmentalization is only a year old but the provision requiring segregation of the assets has been on the statute books since 1911. There is conclusive evidence from Oregon's experience that segregation of assets alone means greater safety for the savings depositor.

The amount of deposits on date of suspension and percentage paid in commercial and savings departments of banks which have been completely liquidated in Oregon since 1911 is shown by the following table:

Bank	Date Closed	Aggregate deposits on date of suspension		Per cent of Dividends	
		Commercial Department	Savings Department	Commercial Department	Savings Department
A.	10/19/11	$55,178	none	84	none
B.	2/23/15	50,844	none	61	none
C.	8/30/21	55,791	15,000	41.5	99
D.	10/24/21	83,989	20,668	38	87
E.	2/16/22	1,555,296	1,069,929	55.8	80.6
F.	6/ 4/23	79,014	none	45.7	none
G.	4/26/24	56,438	2,984	65	100

It will be noted that of the four banks maintaining savings departments the percentage of dividends paid depositors is in all cases higher than that paid the commercial depositors.

Banks Not Completely Liquidated

THE following statement, showing aggregate deposits on the date of suspension together with the per cent of dividends paid to depositors in both the commercial and savings departments, between the date of suspension and December 31, 1925, is taken from the eighteenth annual report of the Superintendent of Banks, 1925.

Bank	Date Closed	Aggregate Deposits on Date of Suspension		Per Cent of Dividends	
		Commercial Department	Savings Department	Commercial Department	Savings Department
1.	Dec. 18, 1911	$152,840	$27,710	50	100
2.	Aug. 11, 1920	282,216	none	5	none
3.	Dec. 27, 1920	290,521	12,740	45	45
4.	Jan. 28, 1922	538,412	183,171	none	none
5.	Feb. 1, 1922	62,636	6,660	15	100
6.	Feb. 23, 1922	719,537	195,711	60	95
7.	Nov. 13, 1922	163,540	43,479	55	85
8.	May 26, 1923	78,738	none	25	none
9.	Sept. 4, 1923	35,676	none	50	none
10.	Mar. 21, 1924	107,053	none	*85	none
11.	Nov. 5, 1924	243,820	37,285	30	85
12.	Jan. 24, 1925	192,218	none	22.5	none
13.	Oct. 16, 1925	47,683	9,058	*none	*none
	Total	$2,914,895	$913,971		

*Funds available for additional dividends.

The statement of dividends paid to depositors of banks in liquidation on December 31, 1925, also shows that the savings depositors are more nearly paid in full.

It will be noted that all of the banks except numbers four and thirteen have paid substantial dividends. The latter had been closed only a few weeks. The payment of dividends in the former was enjoined pending the final settlement of a suit involving a deposit of $96,000 purporting to be government funds.

Under the law prior to May, 1925, the only protection to the savings depositors was the assets pledged to that department. The new law adds still further protection by providing a margin of capital and surplus. It was primarily for this reason that the Oregon Code Commission recommended allocation of capital in the 1925 revision. Banking authorities in California have always insisted that allocation of capital is an essential feature of their law. A ratio of capital to deposits in the savings department, graduated according to population, is fixed in the law.

In states where segregation of assets for the savings depositors is not accompanied by an allocation of capital the treatment of the savings depositor in the event of liquidation is not uniform. In some instances he has a prior lien on all assets; in others he has a first lien on the assets of the savings department and an equal claim with other depositors on all other assets.

(*Continued on page 257*)

Rayon's Rapid Growth

By WILLIAM GIDALY

The Output Is 33 Times That of 12 Years Ago. America the Leading Producer and Consumer But England Occupies a Powerful Position. Rayon Industries Prosperous in Many Countries But in Eastern Europe There Is Depression. Prices Undisturbed.

THE rapid development in rayon production and demand is one of the romances of modern American industry. From a production of 1,566,000 pounds in 1913 the American industry grew to 52,000,000 pounds in 1925, while this year's output is estimated at 68,000,000 pounds.

The struggle for the leadership between America and any one of the European countries was short and the victory decisive, although qualified by the fact that over 50 per cent of American production is controlled by British capital.

The principle in the manufacture of artificial silk is the extraction and conversion of cellulose, the vital component of vegetable substance. Its invention is the result of long and laborious experiments of French and English chemists, dating back as far as 1710. It was the brilliant Réaumur who first thought of reproducing the work of the silkworm through a chemical process in his laboratory, and Count Hilaire de Chardonnet arrived in 1889 at a method which assured the commercial future of the discovery.

Today four main methods of manufacture have been evolved. The most important is the viscose process, which obtains the cellulose from wood pulp, while the other methods use cotton linters or waste as raw material.

A factory view showing where rayon skeins are inspected and graded

Factories Worked to Capacity

TWENTY years ago the rayon or artificial silk had no standing with consumers and was used only as a substitute by textile manufacturers. The aggregate world output in 1909 was 16,000,000 pounds; for the last year it amounted to over 185,000,000 pounds, and the current year will probably close with an increase of at least 15 per cent over 1925.

With going factories working double shift and carrying forward orders for several months ahead, new plants are under construction to supply the growing demand. Experiments carried on in the laboratories of the rayon factories and of manufacturers of fabrics lead almost daily to new fields for its employment being opened up. No statistics are as yet available on consumption of rayon in the various branches of the textile industry in the United States during 1925, but trade estimates agree that the hosiery and cotton industries are the leading consumers, the proportion of the country's entire rayon production used being estimated at 20 to 28 per cent in the hosiery industry and at 21 to 26 per cent in the cotton industry, followed by silk manufacture with 16 to 18 per cent, underwear with 13 to 15 per cent, knit outer wear with 5 to 10 per cent, braids with 4 to 8 per cent, and the balance being credited in small amounts to the mills producing upholstery goods, plush, wool goods, and miscellaneous articles. Recent experiments with acetate rayon resulted in the discovery that it is a perfect insulating medium, and it has been put to use as insulation of electric wires.

America the Leading Producer and Consumer

ONE fact appears to be above contradiction, that rayon has passed the stage where it was looked upon as a mere substitute or as an ephemeral toy of Madame Vogue, and that it has firmly established itself as a unique standard staple here to stay.

America's share in the world's output of rayon was approximately 28 per cent in 1925. There are eight concerns with plants located in New England, Pennsylvania, Maryland, Tennessee, Virginia, and West Virginia. The largest is the Viscose Company, which in 1925 produced 36,000,000 pounds out of America's total of 52,000,000 pounds; the Du Pont Rayon Company manufactured 7,000,000 pounds, the Tubize Artificial Silk Company, 5,000,000 pounds, the other five companies having contributed from 500,000 to 2,250,000 pounds individually. The capitalization of the eight companies, according to their latest reports, is estimated at about $300,000,000. with the Viscose Company representing $100,000,000, the Du Pont Rayon Company $135,000,000, and the Tubize $8,000,000 of investments.

Despite the activity of domestic plants and heavy customs duties (ranging from a minimum of $0.45 a pound to 45 per cent ad valorem), imports in 1925 totaled 7,000,000 pounds, of which amount 5,500,000 were imported for consumption.

One of the most striking features of the rayon industry is the price stability. During the last five or six years there were only two important changes in prices, which occurred in 1924, when prices were reduced 27 per cent, and on July 1, this year, when they were cut further 17.5 per cent, bringing the present prices below pre-war level.

England's Position in the Market

THIS contrasts sharply with the price movements of other textiles, ranging from 70 to 290 per cent above pre-war quotations and the erratic fluctuations of real silk. According to Department of Commerce experts, this price stability enables the manufacturers "to announce their prices for the coming quarter, open their books for orders

and allot their output."

Although America is at the head of production and demand, it is unquestionably England that dominates the world market from the financial point of view. In 1925 it manufactured 30,000,000 pounds and imported an estimated quantity of 13,000,000 pounds and exported about 7,000,000 pounds.

Courtauld's Limited is credited with being the largest producer in the world, and expects to show an output of 75,000,000 pounds, including that of its new plants in England, Canada, India, France, and the United States. This company, it is claimed, shows an increase in value to its shareholders of almost 5000 per cent in the last eleven years. In 1914 the company had a capital of $10,000,000. This is all that was ever put into it outside of its own profits. Since then $90,000,000 have been earned and given to shareholders as stock bonuses. The par value of the company's stock is $100,000,000, but at present quotations it is worth about $500,000,000. Its net profits for the current year are conservatively estimated at $50,000,000.

Courtauld's holdings in the American Viscose Company are estimated at $38,000,000 of 7 per cent preferred stock out of a total of $42,000,000 issued and $47,000,000 of common stock out of $52,000,000 issued.

As it controls 90 to 95 per cent of England's output and 75 per cent of this country's production, it is reasonable to assume that this British company alone controls 30 per cent of the world's rayon manufacture. Although England ranks only third as to quantity produced, this fact places it in the forefront of the world's producers.

The next largest producer after America is Italy. Due to cheap domestic labor, ample hydroelectric power, the existence of all the primary chemicals and the interest of foreign capital, the country in 1925 manufactured over 16 per cent of the world's output. As home consumption of 13,000,000 pounds as against production of 30,000,000 pounds, left approximately 57 per cent of the output free for export, Italy is the main source which supplies America and England with the amount of rayon needed in excess of home manufacture. The Snia Viscosa (Societa Nazionale Industria Applicazione Viscosa) is the largest company, controlling 60 to 70 per cent of the national output.

The machine that converts wood and cotton linters into rayon.

Germany manufactured from 26,000,000 to 33,000,000 pounds of rayon in 1925, the estimates varying widely. The Glanzstoff-Bemberg group controls from 60 to 70 per cent of this country's turnover. Closely connected with this company is the I. G. Farbenindustrie, the Vistra, and the Dynamit Nobel Company. The I. P. Bemberg Co., of Barmen, Germany, is now constructing a large unit in Johnson City, Tenn.

In France, last year's production of 14,000,000 pounds was exceeded by consumption of the textile mills, an important part of whose output was exported in the form of fabrics. The Comptoir des Textiles Artificiels, a selling organization for eight producers, whose combined production is said to account for 75 per cent of the French output of rayon, is the dominating factor in the French rayon industry. The Lyons silk district was the first to open up to the manufacture of rayon, but plans are under way for the construction of new plants in the northern wool and cotton district.

In Holland the national production (about 8,000,000 pounds in 1925) is controlled by the Enka and Breda groups. In Belgium the Tubize Company has the lead. It is closely connected with the French and American Tubize companies.

Japan has rapidly grasped the possibilities of the new industry. Its two plants produced between 3,000,000 and 4,000,000 pounds in the last year. Three more plants are in the way of construction and are expected to begin operation in the current year.

Depression in Eastern Europe

IN eastern Europe, Czechoslovakia's rayon industry is undergoing a period of greater depression than any other branch of the country's textile industry. In recent months the turnover dropped 25 or 30 per cent as compared with the corresponding period in 1925. In Hungary the only rayon factory at Sarvar was forced to close down recently, dismissing its entire force of 1300 workers. Russia has one factory in operation which produces about 300,000 pounds annually.

In reviewing the present situation and the spectacular rise in recent years of the rayon manufacture, one is impressed by four outstanding facts: the national centralization of production in few large concerns; the relations of international controlling interests; the growing demand, world-wide in extent; and the private control of financing.

The first one of these features is responsible for undisturbed price levels. In Germany and Italy the prices are being fixed by a convention of the interested manufacturers, and even in America, where no such convention has as yet been effected, there is little or no variance among competing plants as to prices.

The Convention in Los Angeles

AS this issue of THE AMERICAN BANKERS ASSOCIATION JOURNAL goes to press, the Fifty-second Annual Convention of the Association is opening in Los Angeles, Cal., with bankers in attendance from every state in the Union and many representing banks in other countries.

Of the many conventions held in the United States in the course of a year, few approach this in its influence, not alone on banking but on business in general. Partaking of the nature of the business it represents, the convention is never spectacular, but partaking also of the character of the business of banking, the decisions of the convention, the exchange of opinions between bankers are far-reaching in their influence on business.

In the various sessions of the main convention and the conventions of the various divisions, sections, commissions and committees, the whole range of banking is included in the discussions and deliberations of the delegates.

The November issue of THE AMERICAN BANKERS ASSOCIATION JOURNAL will report the proceedings of this all-important convention, and covering, as the convention does, a very wide range of subjects, it will be a number of unusual interest and value.

Clearing the Record

IN the August number of the American Bankers Association Journal, there appeared an article on the subject of "Regulating the Building and Loan Associations" written by Peter G. Cameron, secretary of banking of Pennsylvania.

"I am in receipt of a communication from the Building Association League of Pennsylvania," Mr. Cameron writes, "in which it is stated that I was in error in saying that bills offered in the Pennsylvania Legislature, with a view to correcting the commission evils and prohibiting the marking of syndicate loans 'were defeated through the activities of the Building Association League.'

"After stating the position of the league on these two questions, the communication states: 'In conclusion, what we particularly complain of as to your splendid article is the statement that the Building Association League opposed bills to prevent syndication and also to prohibit the taking of commissions. This the league did not officially do.' The league then requests that I recall 'in particular that portion (of my article) which indicates that the Building Association League was against the bills you speak of.'"

Mr. Cameron asked that this statement be made "In order that any erroneous impression gained may be removed and the position of the Building Association League of Pennsylvania with regard to such legislation may be understood."

Convention Calendar

DATE	STATE ASSOCIATION	PLACE
Oct. 22-23	New Mexico	Roswell
Oct. 22-23	Arizona	Nogales
Nov. 11-12	Nebraska	Lincoln

Living Trusts as Income Producers

By GILBERT T. STEPHENSON
Vice-president and associate trust officer, Wachovia Bank and Trust Company, Raleigh, N. C.

Immediate Revenue is Afforded a New Trust Department That Succeeds in Selling the Living Trust. Trustee Usually Takes Commission on Both Principal and Income of Trust Estate Being Administered. Likely to Be Named Executor Under Will.

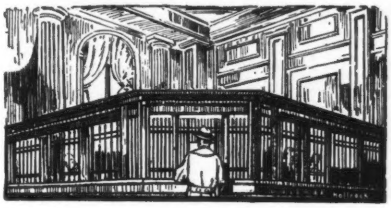
A NEW trust department that depends on the settlement of estates and administration of trusts under will for its income need not expect to show a net profit during the early years of its existence. One of the largest trust companies of the South had to wait over three years for its first executorship and nearly twenty years for a net profit from its trust department. Even now the average trust department requires five to ten years to be placed on a paying basis.

The reason of such delay in profits is that there is necessarily an interval, longer or shorter, between the execution of the will naming the bank or trust company executor or trustee and the probate of the will and issuance of letters testamentary by the court authorizing the executor to proceed to settle the estate, administer the trusts and receive the compensations.

Analysis of the ages of those naming one trust company executor reveals that 3.8 per cent made their wills between the ages of twenty and thirty; 26 per cent, between thirty and forty; 35.3 per cent, between forty and fifty; 25.2 per cent, between fifty and sixty; 6.7 per cent, between sixty and seventy, and 3 per cent, between seventy and eighty. The average age is 43.9 years, and the expectancy of a man of this age is over twenty-five years, which means that the trust company has to wait twenty-five years, on the average, to realize any profits out of the estate covered by a will executed today.

Realizing that it cannot subsist during its infancy on executor and testamentary trusts, the new trust department turns its attention to other forms of business—not always trust business. At this point it is subjected to two temptations. One is to delay manning and equipping the department until trust business justifies the expense. This means that trust business that comes in of its own accord is handled by the cashier or some one else in the bank as a side issue and, consequently, frequently neglected, to the discredit of an institution that holds itself out to do trust business and to the disadvantage of corporate trust service in general.

THE other temptation during this period of waiting is to launch forth into other branches of service that show quicker profits. Sometimes it is insurance, property or life; sometimes real estate; sometimes stocks and bonds, and sometimes long-time loans on real estate as agent for some life insurance company. These are all legitimate business, to be sure—as legitimate in every way as trust business—but none of them is the



proper function of a trust department. The bank or trust company that permits its trust department to subsist on income from any one of these sources is postponing the day when it will have enough trust business to put it on a paying basis.

Living trusts, including funded life insurance trusts, are the type of trust business that yields immediate revenue to a new trust department. It is usual for a trustee to take a commission on both the principal and the income of a trust estate being administered under a living trust or a funded life insurance trust agreement. The commission on the principal is taken either at the beginning or at the termination of the trust. The larger the trust and the older the creator, the more likely will the commission be allowed at the beginning. In some cases one-half the commission is taken at the beginning and the other half at the end of the trust. At any rate the trustee may receive all or at least half of the commission on the principal at the time the trust is created.

The commission on the income is usually taken annually, which means that the trustee will receive its first commission on income certainly by the end of the first year after the trust is created.

The compensation of one large trust company for serving as trustee under living trust agreements is either 1 per cent of the principal up to $100,000 and ½ of 1 per cent of the principal over $100,000 payable when the trust is created or, at the option of the creator, 2 per cent of the principal up to $100,000 and 1 per cent of the principal over $100,000, payable when the trust is terminated, and, in addition to this, 5 per cent of the gross annual income up to $10,000 and 2½ per cent of the gross annual income over $10,000.

SUPPOSE one creates a living trust of $100,000 and elects to have the commission on the principal taken at the beginning of the trust, and that the trustee is able to make the trust estate yield a net income of 5½ per cent, which is the average for the trust companies of the United States, according to the report of the Committee on Research of the Trust Company Division of the American Bankers Association. The trustee will receive $1,000 commission on principal the day the trust is created and $272.25 commission on income at the end of the first year and annually thereafter. It will not take many living trusts like this to put a new trust department on a paying basis.

The revenue to a trust department from a funded life insurance trust is practically the same as that from a living trust. While the trustee does not charge for paying premiums or collecting the insurance—and this should be clearly understood—it does take a commission on the principal of a funded life insurance trust either at the time the trust is created or at the time it is terminated, or sometimes at the time the insurance is collected. The creator of a funded life insurance trust is usually willing to have the commission on principal taken at the time it is created, because it is less if taken then than if taken later.

Another consideration that should make a bank or trust company with a new trust department pay special attention to living trusts is that a man of means is more likely to name it trustee under a living trust agreement than to name it executor and trustee under his will. By making a living trust he is at hand to see and, if necessary, to advise about the administration. By making it revocable he retains the right to terminate the trust and revest the estate in himself if he becomes dissatisfied with the administration. By so providing in the trust agreement he may retain the right to be consulted beforehand about investments and reinvestments of the estate. But the one who names a bank or trust company with a new trust department executor and/or trustee under his will is intrusting his estate and the material welfare of his loved ones to inexperienced hands after his own guiding hand is withdrawn.

To the bank or trust company that has recently established a trust department, or that is now contemplating establishing one and is in a quandary how to make it self-supporting, I suggest that it have its trust officer master the subject of living trusts and life insurance trusts, as well as wills and testamentary trusts, and that he devote a considerable part of his available time and energy to selling living and life insurance trusts. He may rest assured that if the creator of a living trust or life insurance trust is pleased with the services of the trust department, his company will be named executor and trustee under the will. An excellent way to get a man's will is to sell him a living trust and please him with the way it is administered.

EDITORIAL

The Trend In Interest

OBSERVERS of trends in finance are inclined to the opinion that succeeding years will see interest rates on a level lower than those at present prevailing.

The chairman of one of the largest trust companies in the United States the other day, referring to the reluctance of people to invest in railroad stock because earnings were by law limited to around 6 per cent, ventured the opinion that in a few years 6 per cent might be considered to be a very good return.

This is, of course, based on the assumption that all trends continue about as they now are and that no new and powerful factors are injected into the situation. Prominent among the factors which seem to be working toward lower wages for money, it is observed, is the factor of higher wages for labor. Labor has gained new high levels in wage scales and it has a new and a better intelligence in prosecuting its cause as is evidenced by the fact that there has been a shift from antagonism toward capital to the use of capital as labor's ally. If labor continues to obtain more and more from the profits of a given industry, seemingly there will be less left for the wages of the capital employed in the industry. But that cannot be laid down as a hard and fast rule, for here enters the machine whereby labor's efforts and labor's intelligence are multiplied. (The introduction of labor-saving machines ordinarily makes possible better remuneration for both the capital and the labor in a given industry.) Moreover, there is the contrary evidence of our present prosperity to upset the conclusion that higher wages for labor necessarily means lower wages for capital.

In an era of unprecedently high wages there is unparalleled general prosperity, and capital, abundant though it is, is not without remunerative employment. Yet we cannot say that it is the high wages alone that make us prosperous. Everybody employed at good wages gives purchasing power and purchasing power gives orders which in turn give both capital and men employment. If it were not for the machine there would be less for all concerned and probably there would be lower wages. This is the main cycle, not, however, a simple process but an immensely complicated and complex process depending for its continuous functioning upon delicate adjustments—depending also upon many contributory movements and easily upset by some maladjustment which for the moment may seem to be so far removed from the main cycle as to be unrelated to it.

But if the all-powerful factor that is working toward lower wages for money is labor, with its demand for ever increasing remuneration, it is unlikely that labor will crowd capital to the wall because the workingman, though he wants all he can get for his own services, knows his arithmetic and has an eye on what he can get through wages for his money. He is now a capitalist as well as a workingman. If, perchance, he overlooks that fact then capital—his own included—will not come out, but will in effect go on a strike or seek fields where it can get better wages, industry will languish and opportunities for employment diminish. Capital, like men, takes flight, hides itself, migrates and, like men, not infrequently refuses employment because wages are not to its liking. Like men, it migrates for better opportunities and, like men, it often, as we have recently seen in Europe, actually takes flight from impending dangers. The workingman's capital does all of this with the same alacrity and for the same reasons that the "capitalist's" capital does.

When Governments Go Out of Business

WHEN Belgium the other day pluckily settled down to reconstruct her finances, one of the first parts of her program was to create a national railroad company to acquire the 3000 odd miles of railroads owned by the state. This afforded her a means of consolidating her debt through the exchange of the state railway bonds for preferred shares of the new railroad company, but it also provided a way out of the costly operation of a system directed and manned by government servants.

What Belgium is now doing, Germany did in her program of financial readjustment under the Dawes Plan for she, too, separated the functions of her 35,000 miles of highly organized state operated railways from the Government and placed them in the hands of the German Railway Company, a private concern, independent from the Reich and with enough capital of its own to meet payments of the railways on reparations account. The results in Germany have been more successful than had been anticipated, with revenues exceeding the estimates of the Dawes Commission, and the properties and equipment of the roads on a higher plane than at any time in their history. Here again private operation has succeeded in creating operating surpluses that were not possible under the extravagance of government supervision.

Going on to Austria, we find that during her days of financial crisis she initiated a scheme for private rather than national administration of her 4000 miles of railway lines, and that this has been carried through satisfactorily, and with profit to those who have administered these lines.

Italy did not, as had been at one time intended, convert her railway lines from state to private jurisdiction, but she did what a private corporation would have done under the circumstances, namely, cut off the inefficient and unnecessary from the personnel of the company and reduced unprofitable train service to a minimum, so that today the Italian railroads have 173,000 employees on their 10,000 miles of line, as against 241,000 immediately after the war, and in 1925 had met earnings of lira 176,000,000, compared with a deficit in 1921 of lira 1,432,000,000.

French railways are, with one exception, operated by private corporations, though with quite direct government supervision, and very direct government responsibility for fixed charges and dividends. The one exception is the State Line, which always shows the lowest operating efficiency and a perennial deficit, and whose payroll is padded to a very high degree. We might make a similar contrast between the surplus of

the Canadian Pacific Railway in Canada, privately owned and managed, and the Canadian National Lines, in which the Dominion has a direct financial and political interest.

Coming home to our own railway situation the present month has demonstrated, even more strikingly than before, the contrasting results of private supervision and Federal control. The JOURNAL gave in its December number and a resumé of the improvement in operations that had occurred on the American Railroads since the end of government supervision in 1920. It has remained, however, for the figures of the first eight months of this year to clinch the argument that managers separated from political influences are able to accomplish much more in the transportation field, both for the public which uses their lines, and for the investors who own their securities, than when they are under the direction of some Washington bureau.

The business of moving the greatest volume of merchandise freight, and the largest number of loaded cars of grain, has been carried out this summer with a smoothness that has attracted the attention of the layman, and has reflected in rising prices of railroad stocks. Week after week the number of loaded cars has risen above 1,100,000, and yet there has been no congestion, even in those parts of Kansas and Oklahoma where the farmers have poured the abundance of their winter wheat crop in at the small stations at a rate which, in other years, would have swamped the carriers.

In 1920 a large part of the public and the railroad bureaucracy in Washington challenged the railroad managers to a duel over the issue of private vs. government railway management. This was accepted, though many hearts were weak at the time. Through the years that have followed, the standard of railroad administration has risen, service has improved, earnings on property investment have increased, and few now think much about the government ever gaining possession of the railways. There is general satisfaction in their manner of administration and growing contentment on the part of railroad security holders in the rewards that they are receiving. In this change from conditions under Federal control to those of today, the same policies have been adopted as those which are bringing profit to the railways in Germany, Austria and Italy, and which will unquestionably help Belgium to reestablish her national credit.

Electric Development in Canada

IF the estimates of the Canadian Department of the Interior are correct there will be required in Ontario and Quebec for water power development in the next twenty years over $64,000,000 a year or a total for the period mentioned of approximately $1,300,000,000. An estimate made by the Dominion Bureau of Statistics in 1921 showed that 13.6 per cent of the capital invested in power production at that time was owned in the United States. If the experience of the next twenty years approximates the estimates of capital requirements and the percentage of American capital invested in these enterprises is maintained there will be in 1945 an additional investment of about $169,000,000 by residents of the United States in water power development.

"In spite of the comparatively small population," says the Water Power Branch of the Department. "Canada has been a pioneer in water power development. In size of units, greatest transmission span, greatest area of distribution and greatest output from a single concern, she holds or has held the recent records. The water power situation in Canada today is one of accomplished results, of an almost record result per capita, of increasing construction work and of large development in view for many years to come."

During the first five months of the present year the amount of electricity generated in Canada increased by 17 per cent over the corresponding term last year and the increase over the corresponding period in 1923 was 38 per cent.

It is observed that the growing increase of electricity generated is indicative of increasing industrial activity on the theory that necessarily there is less of it used for lighting and domestic purposes than in more thickly populated countries.

Salting Their Wounds

THERE are two sides to the story of the waning good will between the French and the American tourist but there is every reason to believe that some American tourists have used poor judgment in their dealings with Frenchmen.

There would perhaps be a better understanding of the French demonstrations against Americans, if American currency were depreciated, America were heavily in debt to Europe and this country were overrun with Frenchmen constantly assailing us with damp wit and salting our wounds with pleasantries over our commercial agony.

Though the American man who facetiously asks the tradesman of Paris, the old, old question "How much is it in *real* money?" may have lost a son on a French battlefield, it is unreasonable to expect the tradesman to know that. The salt goes into the wound just the same.

Wheat In France and America

FRANCE has three million acres less of wheat and three million acres more of grass than she had before the war according to a statement made by an economist of the United States Department of Agriculture.

Of course the obvious reason for this decline in the area of wheat in one of the world's greatest wheat producing countries is found in the war itself. Men left the farms for the army, many of them died, others remained in the cities leaving the fields to the cultivation of women and children. But the economist observes that while that is the primary reason, the fact remains that France was going to grass before the outbreak of the war.

This transformation of the fields need not however be construed as a danger sign. A careless observer might ride for thousands of miles through certain sections of the United States and declare upon the testimony of his own eyes that this country had gone to grass, so numerous are the meadows, the pastures and the waste lands. In our great dairying sections the country has surely gone to grass but the grass nevertheless is turned into money through the medium of milk, cream, butter, cheese and the people and their homes in these grass lands show at a glance their prosperity.

It was wheat, good crop though it is, that caused the undoing of so many of our farmers in the great wheat belt, and caused the failure of so many banks, and that such a thing may not again overtake them they are now going to grass, as the expression runs, and putting cattle on the grass lands.

Cartoon Views of Passing Events

"Pop Has Learned Something from Experience"—Ding in the New York Herald Tribune

"Home Again"—Sykes in the New York Evening Post

"Dawn"—Thiele in the New Orleans Item

"Shed a Tear Today for the Poor Cattle Raiser"—Smith for the Newspaper Enterprise Association

"In That Respect He's No Different Than the Rest of Us"—Hanny in the Philadelphia Inquirer

"One Must Push and One Must Pull"—Cargill in the Paterson Daily News

"A Straight Question"—Rodger in the San Francisco Bulletin

"The Flaw of Supply and Demand"—Spangler in the Montgomery Advertiser

"How Our Candidates Are Standing on All Public Questions This Summer"—Ding in the New York Herald Tribune

Profits in the Mining Industry

By D. RICHARD YOUNG

Copper, Lead and Zinc Outstrip Gold and Silver in Importance. Large Left-over War Stocks, Expanded Capacity for Production and Unwillingness to Curtail Output Answers "What's the Matter With Copper?" Most Mining Ventures Lose Money.

BANKERS and other students of economic conditions are always interested in the course of the mining industry because of its basic place in the business structure. Without a large production of the various metals, our everyday life as it is now carried on would be impossible.

This discussion deals with the "nonferrous" group of metals, which includes all those excepting iron. When one tries to classify them in the order of their importance, copper comes first, because all electrical apparatus, the telephone and telegraph, light and power, radio, automobile ignition and everything run by an electric motor requires copper wire to carry the current. Lead is required as a base for paints, for storage batteries, and in the electrical and automobile industries. Because of its lightness, aluminum is essential in aircraft, and in automobiles and cooking utensils. Nickel for nickel-plated articles, such as tools, radiators and faucets, and zinc for dry cells and for galvanizing, are essential to prevent rust.

Without tin for the coating on tin cans all of our canned goods would have to be packed in fragile glass or some other more expensive container. The housewife would class silver as important for she would not like to do without her silver spoons and forks. We might get along with silver coins if he had no gold, but most people prefer a gold watch. So on down the list of these nonferrous or "subsidiary" metals as they are called, platinum for jewelry and chemical dishes, tungsten for incandescent light filaments, mercury for thermometers and mirrors, and numerous metals to mix or "alloy" with others, such as arsenic, antimony, silicon, magnesium, chromium, manganese, bismuth and cobalt.

The Leading Companies

IN considering, from the banking and investment viewpoint, the companies engaged in mining, smelting and refining nonferrous metals, they are usually taken as a group, since all companies in the industry have rather similar problems, and most ores contain a number of different metals to be recovered in the smelting process. Thus, most producers of copper, the most important of the subsidiary metals, also secure gold, silver and lesser quantities of other metals.

Following is a tabulation of the earnings for the last three years of the leading American producers which have published reports to stockholders and in the newspapers. The figures represent the net profits available for dividends or to carry to surplus, i. e., after all expenses of exploration, drilling and operations, depletion of ore reserves, depreciation of equipment, interest charges and provision for taxes have been deducted. All fiscal years end December 31.

Nonferrous Metal Producers

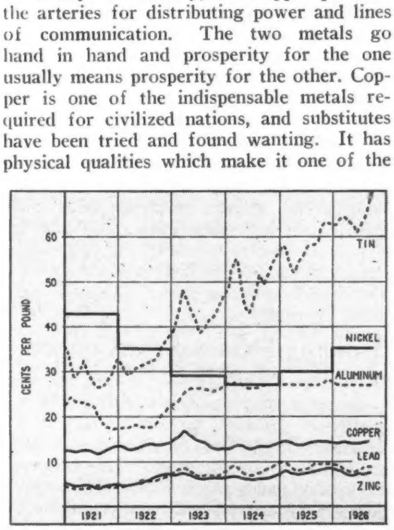
Net Profits, 000's omitted

	1923	1924	1925
Ahumada Lead Co. (1)	$377	$704	$1,494
American Metal Co. Ltd....	2,703	3,311	3,354
American Smelting & Ref. Co.	8,925	11,187	15,191
Anaconda Copper Mining Co.	8,768	6,719	17,541
Bunker Hill & Sullivan Min. & Conc. Co.	1,542	2,351	3,945
Calumet & Arizona Min. Co.	504	429	1,066
Cerro de Pasco Copper Corp.	2,700	3,224	6.016
Chile Copper Co.	12,911	11,352	11,939
Dome Mines, Ltd. (2)	1,470	1,720	1,613
Federal Mining & Smelt Co.	614	904	2,730
Hecla Mining Co..........	1,087	1,843	2,495
Inspiration Cons. Copper Co.	2,084	1,704	1,817
International Nickel Co.....	818	2,053	5.547
Kennecott Copper Co. (3)..	3,706	8,621	23,890
Miami Copper Co.	2,301	1,111	1,122
National Lead Co.	5,296	4,455	4,633
Nevada Cons. Copper Co. (4)	2,095	1,676	2,697
New Cornelia Copper Co. ..	428	581	1,126
New Jersey Zinc Co........	6,364	6,406	6,888
Park Utah Cons. Mines Co.	1,045	770	1,912
St. Joseph Lead Co.	4,380	7,559	9,426
U. S. Smelting, Ref. & Min. Co.	2,178	1,800	2,903
Utah Copper Co. (4).......	10,473	8,185	11,104
Vanadium Corp. of Amer..	681	731	1,528

(1) 1923 figures 8 months; 1925 figures before depletion
(2) 1923 figures 9 months
(3) 1925 figures before depletion
(4) Before depletion

The Copper Arteries of Commerce

STEEL forms the framework of practically all industry, and copper provides the arteries for distributing power and lines of communication. The two metals go hand in hand and prosperity for the one usually means prosperity for the other. Copper is one of the indispensable metals required for civilized nations, and substitutes have been tried and found wanting. It has physical qualities which make it one of the most necessary of the "base" metals, as evidenced by the numerous uses to which it has been put. Copper is, therefore, required in large quantities, and in consequence, is assured of a substantial demand and price for practically all time.



The course of metal prices

World consumption of copper last year is given by the American Bureau of Metal Statistics as 1,511,800 metric tons of 2,204.6 pounds, against 1,371,864 in 1924. World production last year is placed at 1,439,437 metric tons, against 1,382,105 in 1924. The following table gives production by the various countries, based on blister copper referred to countries wherein ore orginated, also consumption.

1925 Copper Production and Consumption

In metric tons of 2,204.6 pounds

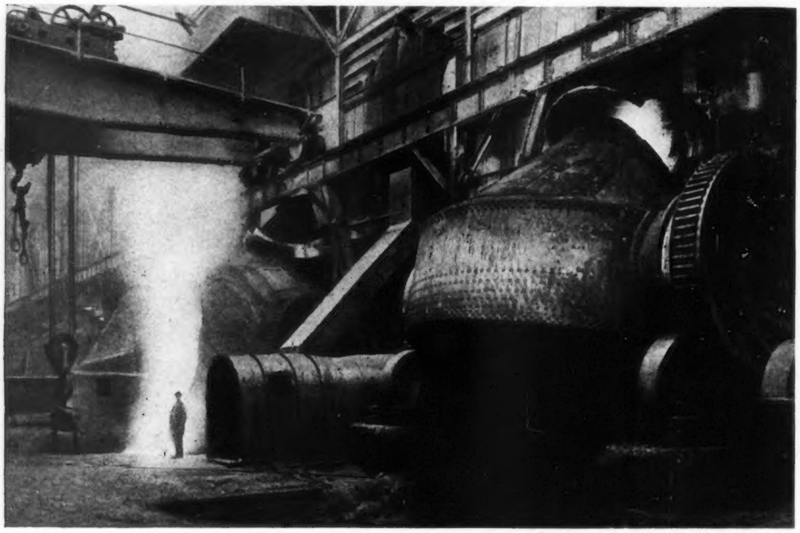
	Production		Consumption	
	Tons	%	Tons	%
United States ...	774,749	53.8	738,300	48.8
Canada	51,020	3.5	*	-
Mexico	53,636	3.7	*	-
Chile	190,198	13.2	*	-
Peru	37,358	2.6	*	-
Other So. Amer...	8,165	0.6	*	-
France	7,000	0.5	117,400	7.8
Germany	23,000	1.6	232,100	15.4
Great Britain ...	*	-	137,700	9.1
Italy	*	-	65,500	4.3
Spain & Port.....	58,000	4.0	*	-
Other Europe ...	30,804	2.1	109,700	7.2
Asia	69,865	4.9	78,600	5.2
Australia	12,519	0.9	9,000	0.6
Africa	107,213	7.5	12,000	0.8
Other countries...	15,910	1.1	11,500	0.8
Total	1,439,437	100.0	1,511,800	100.0

*Included in "other countries."

It will be observed that the United States produces 53.8 per cent of the world's copper, and consumes 48.8 per cent. The entire North and South American continents furnish 77.4 per cent of the world's total, and the mines in Chile, the second largest producer, are largely owned by United States capital.

The Metallurgy of Copper

WHILE the banker is not supposed to be a mining expert, a brief reference to the processes required may be of interest and will serve to illustrate the general method used in all kinds of mining. With few exceptions, the metals are never found in nature in their pure state but as chemical compounds, from which they have to be separated. When there is sufficient metal in a rock or other mineral to make it pay, the mineral is an ore. In iron mining half the weight of the ore has to be iron to make it profitable, but copper or nickel ores with less than 2 per cent of the metal are worth mining. Lead and zinc ores have to contain more metal, or some gold or silver that can be recovered. In nonferrous metallurgy, therefore, we often have to handle 90 to 98 per cent of material that we do not want,



Courtesy Anaconda Copper Mining Co.

Smelting copper ore to recover the pure metal

in order to separate the 2 to 10 per cent that we do want.

The metallurgist must first ascertain, by chemical analysis, just what elements or compounds are in the ores and in what amounts they are present. He then makes use of all sorts of differences in the behavior of these elements and their compounds in separating the metals from the ores. He may crush and grind the ores, then shake them with water to float off the compounds he does not want. Or he may add to the ore a very little of an oil that will stick to the particular compound he is seeking, stir the ore up with water and blow in air, which sticks to the oil and floats up the oiled part of the ore, leaving the rest behind. By such methods he concentrates the ore so as to get less of the waste rock, sand, etc., which he does not want.

The concentrated ore then has to be treated chemically to separate the metal, by the process known as smelting, which means heating by fire or in an electric furnace. The principle of smelting is that the carbon in fuels, such as coal, coke or charcoal, readily burns with the oxygen in the air to form carbon-monoxide, a gas, and in so doing gives off heat. Carbon will also take the oxygen from a compound of a metal and oxygen, for example, copper oxide, to form the same gas and leave the copper as metal. Thus, part of the fuel is used as heat and the rest to combine with the oxide in the concentrate and carry it away. This process is called reduction and is used for most metals, although in a few cases the furnace cannot be made hot enough by using fuel and an alternating electric current furnace is used instead. There are a multitude of different methods used in smelting and converting, depending on the content and value of the ore, but the above illustrates the general idea.

Electrolytic Refining

THE copper coming from the smelter is about 99 per cent pure, but also contains small quantities of silver and gold as well as traces of other metals which must be removed. It is then refined by the process known as "electrolysis," the function of refining being twofold; first to produce the high grade of copper metal, upon which the electrical industry is dependent, and second to recover the precious metals. It is estimated that about 80 per cent of the total silver and 15 per cent of the total gold production of the world are recovered as by-products from copper, lead, nickel and cobalt refining.

For this purpose the "blister" copper, as it is called, from the smelters is cast into slabs of about 300 pounds each, which are put into tanks containing a solution of copper sulphate. A low voltage direct electric current is connected with the slab, and with a thin plate of pure copper also immersed in the tank, causing the slab to be dissolved into solution and then redeposited on the plate, passing from what is technically known as the "anode" to the "cathode." Accompanying this article is an illustration of a large refinery having literally acres of these tanks, with a capacity of nearly 1,000,000 pounds of copper daily.

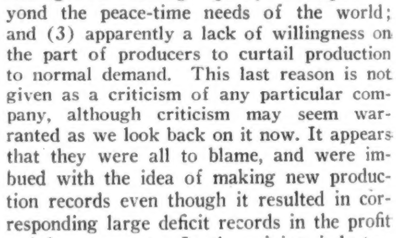
The metal cathode is about 99.98 per cent pure and is then termed in the trade "electrolytic copper," to distinguish it from copper that has not been so refined. The residue, or "slime" in the bottom of the tanks is further treated to recover the gold, silver, semi-precious and base metals. Any banker or investor who has an opportunity to visit a copper mine, smelter or refinery should not fail to take advantage of it, for he will find it interesting indeed, and such a trip may assist him in visualizing the items on financial statements, such as ore reserves, smelters and refineries, metal in process and finished inventory.

Growing Demand for Copper

THE tremendous growth in the use of copper during the last twenty years is a matter of common knowledge and it is unnecessary to go into the statistics in detail. Of the United States' consumption last year, amounting to 1,657,000,000 pounds, 367,000,000 pounds or 22.1 per cent went into electrical equipment, 172,000,000 or 10.4 per cent for telephone and telegraph systems, 212,000,000 or 12.8 per cent for light and power lines, an equal amount into automobiles, 93,400,000 pounds or 5.6 per cent into building construction. The remaining 36 per cent is classified under a long list of headings of which the more important are bearings and bushings, valves and pipe-fittings, locomotives and railway cars, air brakes, commercial and naval ships, ammunition, machinery of all kinds, and coinage.

During the war the demand for shells particularly stimulated production throughout the world and when the armistice was made there were immense stocks on hand. The price of around twenty-seven cents per pound (it had reached a peak of thirty-seven cents in March, 1917), broke to fifteen cents within four months, from which there was some recovery but then worked lower and during the last several years, as shown on the accompanying chart, has fluctuated around fourteen cents. This is relatively below the pre-war figure, the average for the year 1913 being 15.52 cents, while the present level of general commodity prices is approximately 150 per cent of the 1913 base. This fact alone pretty well answers the question so often asked for several years, "What is the matter with the coppers?"

If we search for the causes behind this inequitably low price we find them to be, (1) the large stocks left by the cessation of the war, both in the hands of the belligerent governments and of individual producers, dealers and manufacturers; (2) the mining and smelting capacity developed beyond the peace-time needs of the world; and (3) apparently a lack of willingness on the part of producers to curtail production to normal demand. This last reason is not given as a criticism of any particular company, although criticism may seem warranted as we look back on it now. It appears that they were all to blame, and were imbued with the idea of making new production records even though it resulted in corresponding large deficit records in the profit and loss account. In the mining industry, unlike a manufacturing line, such operations mean not only the loss of capital through current expense but also the depletion of the ore reserves that can never be replaced.



Copper production and stocks on hand

Some people will point out, in justification of the continued mining during such a time, that such operations enabled

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The Changing Standard In Passing On New Bank Charters

By REUBEN A. LEWIS, JR.

State After State Tightens Up Its Requirements. Changing Standard Gives More Consideration to Effect Opening of New Bank Will Have on Solvency of Existing Institutions. Only One in Three Applications Approved. Country Has Too Many Banks.

WITHIN a few years the attitude of the banking authorities on the granting of new bank charters has veered from a policy of moderate liberality—and extreme liberality in a few states—to a growing reluctance to sanction the setting up of additional banks. State after state is tightening up its requirements that govern the granting of the right to start a new bank or trust company, and the Comptroller of the Currency has made known that he will approve applications for new national banks only after a most careful, searching investigation for their need. It is hardly an open secret that far more applications for charters have been turned down during the past two years than have been granted by both the Comptroller, and by the banking commissioners in the forty-eight states.

Convinced that there were already too many banks, the superintendents of banking in some states have openly asserted that their policy would be to reject all petitions for new institutions, holding that the public interest in fewer, stronger and safer banks is to be placed above the personal interest of those seeking to open new banks.

Banks Growing Fewer

THIS more exacting rule, it is significant to note, has been put into effect during a period when the number of banks was steadily declining and not growing. For more than three years each successive bank call has shown fewer banking institutions in operation. More than two thousand banks have passed out of existence during the past three years due to failures, voluntary liquidations and consolidations.

The last bank call showed that there are now only 27,990 banks. It appears probable that there will be a further elimination before banking in this country is regarded as stabilized, as it is the judgment of many competent observers that several of the middle-western and southern states are overbanked.

In times past it has been comparatively easy in many states for responsible men willing to risk their capital to open up an independent bank, either under the aegis of the Federal government or under the supervision of the state. The ease with which authority was obtained is indicated by the fact that the number of chartered banks in the United States was almost trebled during the first two decades of the present century. This expansion outstripped the growth of business or the need for banking facilities in most sections of the country, although it may be pointed out that the most surprising development came in the smaller towns of the newer states. Kansas has more banks than the State of New York. Missouri has more than Maine, Connecticut, Massachusetts, New Hampshire, Rhode Island and Vermont combined!

Tightening Up

ALTHOUGH each bank call for the past three years has revealed a smaller number of banks in operation, the state and Federal authorities are making it increasingly difficult for any group of men to set up a new bank unless assured additional facilities are needed. More and more they are being guided by the view that safe and profitable banking go hand in hand and are demanding assurances that the bank can be run at a profit and that the new competition will not affect the solvency of the existing institutions.

There are only eleven states in the Union that have more than a thousand banks within their boundaries. Seven of these are in the middle-west and western states.

Before the Automobile

HUNDREDS of these banks came into being to "meet the growing needs of the community for banking accommodations," as their sponsors put it. Towns having only a few hundred population found themselves with two and three banks to support. The war-time boom in the prices of farm products and the vaulting values of farm lands gave a plausible ring to the prophecies of the organizers of the new institutions, who insisted that enlarged deposits meant there was a need for at least another bank. The merchants and farmers were assured that the establishment of a new bank would bring competition, so that those seeking loans would find it easier to get accommodated with the absence of a monopoly or a near-monopoly. It cannot be said that most of the banks were organized following a careful survey of the territory to be served or after a scientific analysis was made of probable profits. It was more banking on expectations.

In the earlier part of this period of mushroom growth the difficulties of transportation aided the cause of the small-town bank in the sparsely settled states. It was before the days of hard roads and the cheap automobile, and a bank in the immediate vicinity was more of a vital necessity.

Then, too, the state authorities looked with favor on building up the banking system under their own supervision to supplement or rival the facilities of the national banks. It was under the spur of these influences that the establishment of the banks made such headway. The allurement of starting a new bank was enhanced by the fact that it took little capital to qualify—as little as $10,000 was required in many states, and the appeal to the average man's vanity to be invested with the prestige and influence of a bank director for a mere outlay of a few hundred dollars proved almost irresistible.

How Banks Are Started

"YOU will generally find there is one moving spirit behind the organization of any new bank," one of the state banking commissioners told the writer. "In many cases the whole project would collapse if he were eliminated, and it is usually obvious that his object is to get a job. The average director agrees to subscribe for the stock that will enable him to qualify—not so much with the view to making a profitable investment, but because he thinks being a bank director will help him in his business. In some cases he believes the prestige of holding such a position will give him a better standing in his community—in a few cases because he believes it will make it easier for him to borrow money.

"It doesn't appear that the organizers of a bank explore the possibilities of profits to be made by a bank. They seem to take it for granted that once they have the charter

the gold mine will start. If they investigated, they would find the income from the average bank share would not average more than 3 per cent—although it is true that a great part of a bank's earnings is plowed back into the business, and, of course, the fact that most bank shares are quoted above par give them the gilt-edge appearance.

"The reason given for desiring to open a new bank generally is that 'the community needs additional facilities.' In the smaller towns it is frequently claimed that the existing institutions are 'too conservative,' and the people are denied loans to which they are properly entitled. Investigation almost always shows that the man who deserves credit legitimately can get it."

The disgruntled borrower and the peevish director play a part also in setting up the "spite bank."

"It is not infrequently the case that the applicants for charters are disaffected stockholders and directors of an already established bank," another commissioner pointed out, "and their application for a bank is prompted through retaliatory measures, and with the hope and expectation of working injury to a bank or trust company already established. Again, instances have come to light where a bank has been organized for the sole purpose of creating an easy borrowing place for the officers, directors and stockholders of such new institutions."

These same conditions, it appears from the testimony of bank commissioners in all sections of the country, prevail in nearly all of the states.

States Giving Powers To Deny Charters

ONE of the most pronounced tendencies in state legislation is toward giving the banking commissioner the discretionary power to disapprove any application after there has been a fair hearing. In several states a board, composed of state officials, is provided to pass on the requests of charters.

When Minnesota reorganized all state departments in 1925, the law created a Department of Commerce, composed of the Commissioner of Banks and two other officials, and clothed it with the full power to grant or deny charters. At their first session the commissioners declared "knowing that many of the bank failures and trouble in other banks in this state have been caused by the fact that there are too many banks," and formally went on record as being opposed to the granting of charters for new banks "except in the comparatively few cases where it is clearly shown that the public depends and requires additional banking facilities." Iowa created an advisory board the same year. The South Carolina Legislature added a statute last year giving the State Bank Examiner, along with a committee of state officials, the power to deny applications which did not meet the most stringent conditions laid down. In Missouri the Commissioner of Finance at the present time has very little discretion in chartering banks and trust companies provided those seeking the charter are upright men, who warrant the belief that the business of the proposed corporation will be honestly and efficiently conducted. He has prepared amendments to the banking laws that will raise the minimum capitalization to $25,000 and will give the commissioner the right to turn down applications where it is his opinion there is no need for additional new banking facilities.

In a few states the bank commissioner is without any power to disapprove applications for new charters, provided the men desirous of entering the banking business are of good character, and the nominal requirements as to paying in the specified amounts of capital are fulfilled. In Virginia the Chief Examiner of Banks cannot refuse the applicants who thus qualify the authority to do business. In Pennsylvania the commissioner must grant a charter if the Governor orders the issue of letters patent. However, the tendency is toward giving the banking authorities full discretion.

Effect on Existing Banks

THE effect that the opening of the new bank will have on the solvency of existing institutions in the community is becoming more and more one of the leading questions that is being considered by the bank commissioners.

"Positive proof that there is a real need for a bank in a community and that the legitimate demands of the community are not being taken care of by the banks already doing business in that section" is now required in Mississippi. In South Dakota the Department of Banking and Finance is advising applicants for new charters that it "considers the state at the present time sufficiently served with institutions." In North Dakota the State Examiner has made known that "no charters will be issued whatever unless it can absolutely be shown to the Banking Board that the proposed bank in question can be an absolute necessity to the community." In Oregon the Superintendent of Banks announced: "I am strongly convinced that local financial interests will be best served where we have fewer and better banks. To be successful, a bank must be favored with a volume of patronage. This patronage is not available unless the banking facilities are in demand. With this condition fully demonstrated, the department of this state has refused to issue charters or permit additional banking institutions to engage in business unless there was a demand for public convenience and a sufficient volume of business available to make the institution profitable."

The Bank Commissioner of Utah states that he has "definitely decided that a bank should have from $100,000 to $150,000 in deposits—or should be able to obtain them within a reasonable time—before serious consideration would be given to the granting of a new charter." "With a small capitalization and a small line of deposits," he adds, "it is absolutely impossible to get men of ability to take the management of such banks."

In Florida the State Comptroller reveals that he has turned down more than half of the applications that have been filed during the past year. "I am more convinced than ever that the number should be limited," he asserts, and emphasizes the point that the banking authorities, before giving their sanction to new banks, should be satisfied that "granting a charter for additional banking facilities in a town will not materially injure such banking institution or institutions as already exist there."

As an indication of the more careful inquiry that is being made in many of the states, it may be of interest to recite the questions that are given special consideration by the commissioners in Minnesota. Formal hearings are held, at which time those for and against the granting of the charter are given an opportunity to present evidence covering the following points.

First—Whether the applicants are men of good moral character and financially able to conduct a good bank and, if necessary, pay assessments and double stockholders' liability.

Second—Whether the officers will be experienced and competent bankers.

Third—Whether there will be business enough in the community to support a bank.

Fourth—Whether or not it will effect the solvency of any existing banks.

Fifth—Whether there is a local demand for a bank.

Sixth—Whether the expenses will be kept down to a minimum so that the bank can run on a paying basis.

Careful Inquiry Will Reduce Bank Failures

THERE would appear to be a nearly unanimous opinion that a careful inquiry as to the character of the founders and the management of the bank, following a survey to determine the possibilities of operating the bank at a profit, will result in materially reducing the number of bank failures in the future. With the utmost candor, the bank commissioners in many states express the opinion that their section is "overbanked," and the general policy is for "fewer and better" banks.

"It is our belief that overbanking has contributed more to bank failures than have general business conditions or the so-called period of readjustment," is the opinion ventured by the Superintendent of Banking for the State of Washington. "We have established a policy of discouraging organization of new institutions," he added.

"We are overbanked and are now encouraging small banks that are not making money to liquidate," the Assistant Banking Commissioner of Arkansas states.

"My position in the matter (of granting new bank charters) has been that all of our middle-western states are overbanked and undercapitalized, and we have discouraged to the utmost the organization of additional banks," the Bank Commissioner of Oklahoma asserts.

"My idea is that we probable have too many state banks left yet in South Carolina," the State Bank Examiner says. "Many of them are the outgrowth of prosperous conditions of 1919, which have carried with them the large liabilities placed in the banks about that time."

"We feel that our state today has too many small banks and the interests of the people would be better served by fewer and stronger commercial institutions," the Commissioner of Banking of West Virginia states. "Since January, 1925, there has been but one charter granted for a new bank, while there have been several granted for consolidations and reorganizations."

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Is Federal Regulation of the Motor Bus Coming?

By JOHN C. EMERY
Motor Transport Editor, Railway Age

With 70,000 Buses in Daily Operation, Motor Transport Is No Longer Infant Industry. Interstate Commerce Commission Gets Facts in All Sections. Opposition to Placing Motor Trucks Under Federal Supervision. Buses Cut Into Railroad Revenue.

THE recently concluded nation-wide series of hearings, by means of which the Interstate Commerce Commission prosecuted its investigation into the present status of motor transportation, raises an interesting question: Is the motor bus as a common carrier and a competitor of railways to be subjected, like the railways, to Federal regulation?

The recognition that the day may not be far distant when Congress will delegate to it the regulation of the motor bus was doubtless in the back of the mind of the Interstate Commerce Commission when it instituted its investigation. Added weight to this assumption was lent by Commissioner John J. Esch, who has been in charge of the investigation, in a recent interview in New York, in which he is reported to have said that there is a strong possibility that the Interstate Commerce Commission will take over the supervision of motor bus and motor truck transportation in interstate commerce.

"The time is ripe for regulation," Mr. Esch is reported to have said, "since motor transport can no longer be classed as an infant industry."

39 States Regulate Buses

ONLY thirty-nine states now have laws on their statute books regulating the motor bus in any manner. Some of the states have rigid and comprehensive regulatory laws, which cover the highway carriers as completely as the Interstate Commerce act covers the railways. The majority have held the extent of their regulatory laws at the minimum of requiring bus operators to secure certificates of convenience and necessity from their public utilities commissions before beginning intrastate operations.

With respect to the bus operators whose vehicles cross state lines in the carrying on of their business, however, there is today no regulation whatever. The Interstate Commerce Commission has not been empowered by law as yet to regulate the interstate bus operator, and the Supreme Court of the United States has held in several cases that state commissions likewise are without such power to govern the operations of interstate carriers.

Whether or not it has been stimulated by this comparative lack of regulation, bus transportation has grown within recent years by leaps and bounds. There are today approximately 70,000 buses in daily operation. Of these approximately 32,000 are common carriers, like the railways, and competing with them. They are not confined to any one locality but are spread impartially over every state in the union. So general has been the spread of bus transportation that almost wherever there is an improved road, there is a motor bus route.

Far Flung Bus Routes

ONE line on the Pacific coast extends from Seattle, Wash., via San Francisco and Los Angeles, to El Paso, Tex. In many other localities bus lines cover routes several hundred miles in length. For example buses are regularly in operation between New York and Boston, New York and Philadelphia, Detroit and Cleveland, Chicago and Detroit, Chicago and St. Louis, Chicago and Kansas City, Kansas City and St. Louis, Kansas City and Denver, and Denver and Los Angeles, to mention only a few.

A survey made a year ago showed that there were in the New England district about 350 bus companies operating over some 500 routes. In the region north of the Ohio river and east of the Mississippi, there were more than 2700 bus companies operating over nearly 3000 routes. In the region south of the Ohio and east of the Mississippi, there were some 1600 bus companies operating over 1800 routes. In the northwestern states, there were 400 bus companies operating over 500 routes. In the southwestern states, there were approximately 750 bus companies operating over more than 850 routes. In the three Pacific coast states 700 bus companies operated over 1200 routes. The numbers have materially increased during the past year.

The railways have felt the effect of bus competition in the decline of their passenger revenues. It should be stated at the outset in discussing the losses in railway passenger revenues that it is generally admitted that the private motor car has been a more important factor in cutting into the railways' passenger business than has the motor bus. But the buses have been an important factor, too, a factor daily becoming more important as their operations and popularity spread.

The statistics of revenue passengers carried and of revenue passenger miles are the true indicators of the amount of passenger business the railroads are doing. The amounts of passenger revenues over a period of years have a tendency to be unreliable on account of the effect on them of changes in rates. The year 1916 was the last normal pre-war year. In that year the number of revenue passengers carried on the railways in the United States was 1,005,955,000. Instead of a normal increase following the growth of the national population, the number of revenue passengers carried by the Class 1 railroads in 1925, nine years later, was only 886,650,000. In fact, the number of passengers carried by the railways in 1925 was less than the number in 1911, fourteen years previous.

With respect to passenger miles, a statistical figure obtained by multiplying the total number of passengers carried by the mileage of their journeys equaling the number of passengers carried one mile, a similar picture is drawn. In 1925, the railways' passenger business in terms of passenger miles was 35,963,862,000. This was the smallest passenger mileage handled in any of the last six years with the single exception of 1922. The 1925 figure represented a decrease of 23 per cent below the total for 1920.

Railroad Revenues Hit

THERE have been few passenger rate changes of consequence in the years between 1920 and 1925, so that the statistics of railway passenger revenues for these years may be taken as a fairly reliable indicator of the railways' loss of their passenger business. The passenger revenues of Class 1 railways in 1920 amounted to $1,285,395,081. From this they declined steadily, except in 1923, until in 1925 passenger revenues were only $1,055,273,357.

If further proof of the decline in passenger travel is needed, it can be found in the annual reports of the railways for 1925, almost all of which refer specifically to the loss in passenger traffic and attribute it to highway competition. The following are excerpts from the latest annual reports of several larger railways:

Northern Pacific—"While there was a slight increase in passenger revenue there was a reduction in the number of passengers carried, indicating that the automobile and motor bus have taken a large share of the

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The Plan For a New Tax Cut

By WILLIAM P. HELM, JR.

Continued Prosperity During 1926 Means a Large Surplus in the Treasury. Movement Starting to Reduce Income Tax on Corporations, Which is Levied on Banks, from 13½ to 10 Per Cent. Individuals Have Enjoyed Two Cuts Since 1921 Law.

A CONCERTED move toward another tax cut at Washington is now under way on behalf of the corporations of the country, the only class of taxpayers which have not benefitted directly from the last two income-tax reductions. In this class are the 28,000 American banks.

The present rate imposed on corporations is 12½ per cent plus ½ per cent, the latter levied at the last session of Congress to replace the repealed capital stock tax. Next year the rate is due to go up to 13½ per cent. The movement now in progress has for its aim a reduction in the rates from 13½ to 10 per cent, somewhat more than one-fourth.

If prospects are promising, an effort will be made to push the tax reduction bill through the short session of Congress, which begins on December 6 and ends on March 3 next. If, however, indications point to the futility of attempting to pass such a law in the anticipated jam of legislation at that session, introduction of the bill will be deferred for a year.

Coolidge's Views Awaited

WHAT the White House may desire, apparently, will be given due weight by proponents of the cut, but will not necessarily deter them from pressing it should Mr. Coolidge indicate that he prefers a postponement of the cut until 1928. Those advocating the reduction assert that "relief from an undue tax burden is not a privilege, but a right." They point to the mounting surplus as justification for their claim that present tax rates yield more than the Treasury requires to meet ordinary governmental expenses, including debt retirement at the rate contemplated by the Sinking Fund.

Back of the drive is James A. Emery, general counsel of the National Association of Manufacturers, and representatives of a group of allied associations representing lumber, mining, petroleum, cotton, boot and shoe and automobile interests. Mr. Emery is chairman of an industrial committee of seven which met early in April of this year with the avowed intent of suggesting ways to clarify and simplify the present law and regulations governing tax returns and payments by corporations.

The committee of seven was the outgrowth of an earlier meeting attended by representatives of fifteen leading organizations of producers and manufacturers.

At these early meetings it was agreed to present suggestions for simplifying and clarifying the regulations to the joint Congressional committee on internal revenue taxation. The latter committee was authorized by the last revenue bill. It is composed of leading members of both Houses of Congress, and is required to report back to Congress any recommendations it may care to make not later than the end of this year.

Lower Bank Taxes

AT the last session of Congress, representatives of the American Bankers Association appealed for a "fitting reduction" in the corporation income tax, along with the abolition of the capital stock tax and the repeal of the Federal gift and estate tax. Congress slashed the individual income tax rates but raised the rates on corporations, in which class banks are grouped. The movement for lower Federal taxation on banks is to be renewed if the condition of the Treasury permits a reduction.

Since the early meetings of Mr. Emery's committee, however, the situation with respect to national finances has shown unmistakable evidence of changing for the better. Instead of a moderate surplus at the close of the fiscal year 1926, June 30 last, as anticipated by the Treasury, the actual count showed a surplus of more than $377,000,000. That surplus was accompanied by debt reduction far in excess of Sinking Fund requirements, the total reduction exceeding $800,000,000 during the year.

Thus far during the present fiscal year of 1927 indications point toward an even greater surplus at the close of the year than the $377,000,000 figure of last year. Without legislation the bulk of this surplus would go toward debt retirement in excess of Sinking Fund requirements. The group of which Mr. Emery is chairman apparently believes that it would better go toward tax reduction. That view is shared by many members of Congress; indeed, the minority in both Houses have embraced it as a political doctrine which, for the purpose of practical application, is in a way unfortunate.

Retiring the Public Debt

AS the law now stands, Secretary Mellon may use the entire surplus, if he deems it wise, for debt retirement in addition to the Sinking Fund provisions. Those provisions contemplate the retirement by 1945 of about half of the public debt of $20,000,000,000.

To that portion of the debt, therefore, or about $10,000,000,000, the Sinking Fund was not designed to apply when Congress passed the Sinking Fund law, but after the domestic portion of the outstanding debt is liquidated, the Sinking Fund may be used to liquidate the remainder. Presumably Congress intended that the foreign debtors should assume the burden of retiring that portion of the debt by making appropriate payments annually to the American Treasury. In actual practice it has not worked out that way; that portion of the public debt represented by foreign promises will not be retired, at the present rate, for many years.

However, Mr. Mellon has applied recurring Treasury surpluses to debt retirement annually with such good effort as to insure the retirement of the Sinking Fund portion of our debt earlier than 1945—possibly by 1940. Undoubtedly this practice, praised by the President as the essence of sound finance, has helped maintain tax rates at a higher level than would be the case if Treasury surpluses were made available for tax reduction instead.

Cut Corporation Taxes

IT is in opposition to that practice that the corporations of the country are now moving toward a lower tax rate as soon as it can be enacted. They want the Treasury surplus applied to tax reduction.

With this in mind, the committee of seven, headed by Mr. Emery, has addressed itself to virtually every large trade association in the country, asking its views not only with respect to simplification and clarification of tax returns and necessary accounting methods, but with respect to the later developments, which seem to warrant hope of further tax reduction in the near future. Nearly 150 such organizations have been approached, and their replies are now coming in.

Some time within the next few weeks the committee of seven will hold another meeting and determine its further policy.

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Overdoing the Skyscraper Program

By LEE THOMPSON SMITH
Past President of the National Association of Building Owners and Managers, Secretary, Pease & Elliman, Inc., New York City

Triple Evils Confronting Property Owners Are Over-Production, Traffic and Taxation. Many Cities Now Overbuilt. Ease With Which Real Estate Mortgage Bonds Can Be Sold Cause of Too Many Towering Office Buildings. Factors Not Considered.

IT is only 38 years since the first steel skyscraper was erected in Chicago. Today there is not a sizable city in the United States that does not boast of one or more of these towering structures. The skyscrapers are pointed out as the pride of the community—living monuments to the enterprise of the people.

A recent survey discloses that in the spring of 1926 there were 95 new office buildings under construction in 36 cities, having approximately 12,068,000 square feet of space. According to a rental survey for April 1, 1925, 49 new office buildings, or 5,113,000 square feet of space, were under construction in the 27 cities which reported. At the present time there are reports of new sky-piercing office buildings being projected in many cities, including a building in Detroit that will surpass in height the famous Woolworth Building in New York, which has been classed as one of the seven wonders of the modern world.

Question of Earning Power

WHILE the construction of these sky-scraping buildings increases our vast national wealth—and it is pertinent to note that the amount invested in real estate amounts to more than $180,200,000,000—sight should not be lost of the fact that real property is worth no more than it can earn over a term of years. Quite frankly, I believe that we are overdoing the skyscraper building program. There is a great and grave danger in over-production, because the creation of more space than can be rented is not only a menace to those who invest their funds in the new buildings, but to the owners of the structures that are already in existence.

Over-production is the livest of three real problems the owners of office buildings face today. The others are the growing traffic congestion and the rapidly mounting taxes.

It should not be thought that building owners and managers in the various cities of the United States are opposed to production, for they have faith in real estate and its possibilities, but they realize that if a program of over-production and over-appraisals goes along unchecked, losses are certain to come to those whose money makes possible the construction, with the consequent reaction that will frighten away investors and greatly handicap the financing of enterprises in the future.

At the last annual meeting of the National Association of Building Owners and Managers, it is significant that the members from 126 cities in the United States and Canada, expressed the formal opinion that "the great impetus given to building operations following the cessation of the war has, in most cities, made up the shortage and a generally overbuilt condition now prevails."

Reasons for Over-Production

THE reason for this over-production is probably a result of the tremendous interest in the sale of real estate bonds. In 1925, $675,000,000 worth of real estate bonds were sold in this country. This was an increase of more than 1000 per cent in the last five years. During January and February of this year $96,000,000 worth of these bonds were sold—an increase of $19,-000,000 over the year before.

It is a significant fact that one-eighth of the national income last year was spent in the production of buildings throughout the United States. That was because there was ample money available at what could be considered market rates. Buildings were being put up entirely through the endeavor of bond houses to sell bonds, whether the buildings were needed or not.

Is this over-production caused by the anxiety of the bond houses to sell these issues? Not entirely. It is also caused to a certain extent by institutions and individuals who desire to put up monumental buildings for self-advertisement and to perpetuate their names.

Speculative builders, who borrow the full cost of construction regardless of return, are contributing to it. They then sell the building at a profit and proceed to erect another somewhere else. They are a menace to any city, as they build whether there is need or not, provided that they can obtain on first and second mortgages the full cost of land and building.

I cannot grasp the thought that some of these bond houses seem to have in connection with the placing of their issues on various new and old projects—the thought that there is no such thing as a saturation point or that the law of supply and demand has no effect so far as real property is concerned; further, that it is impossible to over-produce a city. Obviously these statements are incorrect and are made only for a purpose.

False Notions of Profits

MANY investors have been led into the over-building program because they have been told that all the wonderful office buildings in our large cities are gold mines; that the owners ride around in Rolls Royce automobiles; and that the building managers are all capitalists. But all they need to do is to look over the report of the Accounting and Exchange Committee of the National Association, which shows that operating costs rose 33 per cent to 100 per cent, or an average of 76 per cent, in ten years and are still rising, to realize that there is no truth in such an assumption. Many of us would feel jubilant if we could get 10 per cent net with a proper allowance for depreciation. Just because we have monumental buildings, with fast elevators and marble hallways, is no true reason that the return on our buildings is large.

Office building is an industry, the same as manufacturing steel or anything else. The problem is that of supplying under our present system of free competition an adequate volume of desirable office facilities at a price which will be reasonable and yet bring an adequate return to those who have been instrumental in the financing of same. If too great a supply is created, rents will fall and capital will be jeopardized.

In developing property, a careful analysis should be made, the same as in any other industry.

This is not done in the case of many office buildings. Speculators see a desirable corner, feel that they can finance it on a shoestring, erect a building whether it is needed or not, and look around for a manager whom they can get as cheap as possible, probably one who does not know a pump from an elevator motor or a kilowatt from horse-power. However, he is employed to manage a property that covers an investment of millions, regardless of the fact that lack of character and lack of experience in the management, especially at the opening of the building, can make a failure of the most promising project. The management in my judgment is the most important item of any to consider in the financing of these new buildings.

Factors to Consider

THERE are many factors to be considered in the development of properties. The building must be properly located and erected to meet a definite rental demand for the type of space it is intended to provide, and the building operations must be conducted on an economically sound basis. The site must be in an increasing value neighborhood, so that the rental demand may be

(Continued on page 260)

We Are On the Sea To Stay

By T. V. O'CONNOR
Chairman of the United States Shipping Board

Government Has Turned Over Eight Overseas Services to Private Interests. Shipping Board Has Sold 1,100 Ships During Period of Real Maritime Depression. Replacement of Vessels Now in Service Is Big Problem Which Must Be Solved.

IN 1916 the Congress passed an Act establishing a United States Shipping Board for the purpose of encouraging, developing and creating a naval auxiliary and naval reserve and a merchant marine to meet the requirements of the commerce of the United States with foreign countries; to regulate carriers by water engaged in the foreign and interstate commerce of the United States, and for other purposes.

In 1920 the Shipping Act of 1916 was amended and a national shipping policy was established. The policy to have "a merchant marine of the best equipped and most suitable types of vessels sufficient to carry a greater portion of its commerce and serve as a naval or military auxiliary in time of war or national emergency" was expressed by the Congress in 1920 in a Merchant Marine Act which is now law.

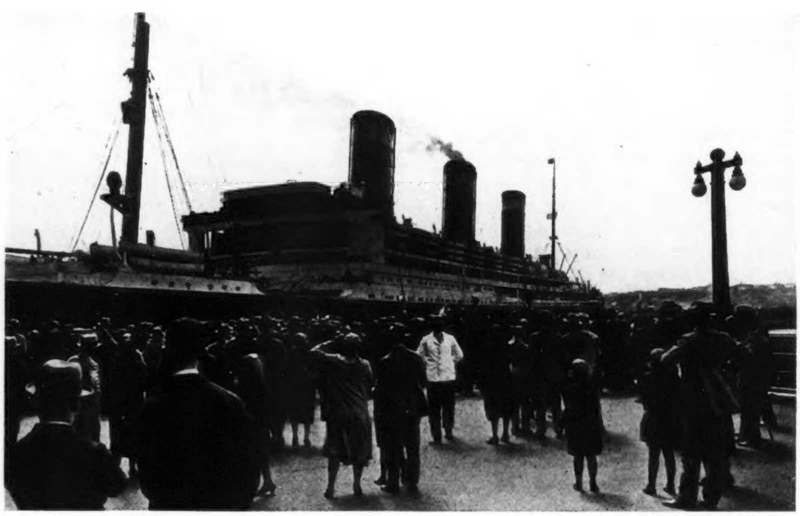
A Settled Proposition

THE United States Shipping Board was the agency selected to carry this law into effect. It will be seen, therefore, that the proposition that we are to have a merchant marine is settled and no longer a matter of discussion.

It is probably not necessary to recall that from the time of the Civil War up to the World War the United States had to depend almost entirely upon ships of foreign nations to carry its commerce and upon ships of foreign nations in time of national emergency. Our merchant marine has in reality become an accomplished fact. The problem facing us today is one of ways and means of maintaining it in the most economical manner and promoting as far as possible its transfer to private American hands.

The work of the Shipping Board under the act of Congress divides itself into three distinct headings: (1) regulatory and promotional; (2) maintenance and operation of the government fleet; (3) liquidation. In carrying out its task the Board has had to keep always in mind the aims and purposes as expressed in the Merchant Marine Act of 1920.

The Board has established strategic trade routes on the Atlantic, Gulf and Pacific coasts to all important foreign countries where none existed before the war under the American flag. Through the sale of lines and the reduction of operating expenses generally, the Board has reduced expenses until for the current year the Congressional appropriation to carry out the work is less than $15,000,000. While it is true that we are today carrying less than 30 per cent of our foreign commerce in American vessels instead of the major portion, every trade route on which an appreciable quantity of American commerce moves is now served by American ships.



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The Leviathan, flagship of the Shipping Board fleet, making ready to sail at New York.

"Cost" or "Loss"?

WHILE it is not necessary to discuss the already settled proposition that we are to have an adequate American merchant marine, either public or privately owned, I might remark that bankers will readily appreciate without further development of the idea the difference between "cost" and "loss." Money invested in the improvement of the American fleet is a cost and not a loss. Perhaps no public expenditure in the history of this country has been more profitable than the billions of dollars invested in good highways by nation, station, counties, cities and towns. These investments certainly did not constitute a loss. The fact is that before we had the good roads the bad roads constituted an enormous public loss.

The ocean cannot be graded or leveled or kept in a state of repair, but the same purposes can be achieved by the construction of proper types of ship. A high powered car can carry cargo more cheaply across the Rocky Mountains than a wheelbarrow can carry it from Boston to Providence. The principle here involved seems so clear and so simple and so obvious that I am inclined to question the motives rather than the mental ability of those people who attack our merchant marine. It is my firm belief and conviction that the best United States Treasury dollar that is spent is the dollar spent for the develment of a permanent American merchant marine.

During the war the United States accumulated, largely by construction, a total of more than 2500 ships of various descriptions aggregating nearly 14,000,000 deadweight tons. These ships were turned over to the Shipping Board, and the Board was ordered by Congress to get rid of the ships which were useless for competitive commerce, to sell what it could to private American interest for operation, and of the rest to operate those which were best calculated to create upon a solid basis an American merchant marine able to carry the greater portion of our own commerce, export and import. Our duty was plain.

We have sold a great many vessels and sold them cheaply. Americanism, the financial ability, and the sea-going experience of purchasers have been the Board's main considerations in determining sales.

The shipping depression which started coincident with the enactment of this law and following the post-war shipping boom, prevents an earlier realization of the

aims sought to be achieved. While a limited number of ships were sold during 1920 to ambitious operators, the boom prices prevailing caused the vessels to be returned later to the Board. The systematic application of the Merchant Marine Act can be stated to have been allowed to remain in abeyance until 1921, when a full Shipping Board was appointed by the administration which had assumed office in March of that year. It can be further stated that the entire practical results obtained in the efforts of the Board to transfer the government merchant marine to private owners dates from July, 1921.

Since that time until August of this year, during a period of unequalled depression in world shipping, the Board sold nearly 1,100 vessels of all types, totalling about 4,500,000 tons, and recovered to the Treasury nearly $80,000,000. All of these ships have not been for operation, however.

The Shipping Board liquidation program is divided into two parts—first, the transfer of liner services to companies which will guarantee the continued maintenance of them; and second, the sale of tonnage not engaged on liner services to American concerns engaged in general shipping business which find it possible to expand their tonnage holdings.

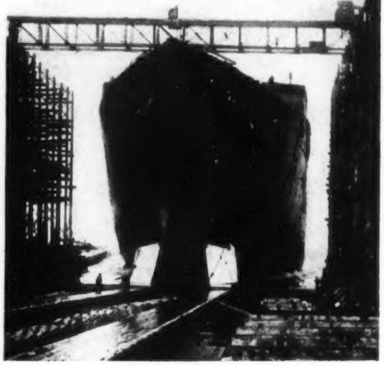
Under the first and more important of these two headings, activities looking toward sales were in abeyance until 1923, the lapse of such time being necessary to accurately define and determine the regional trade routes for American commerce contemplated by the Merchant Marine Act and the establishment of regular service on such routes with Shipping Board tonnage to a point where they had become definite and known factors in world trade.

Sales of Services

IN the fall of 1923, W. R. Grace & Company, a well-known American concern engaged for many years in shipping and trading with South America, purchased two 7600-ton vessels and agreed to maintain with these and two others of equal type which they already owned, a regular and permanent service for five years between ports on the West Coast of the United States and ports on the West Coast of South America. The success with which this line has been operated, coupled with rapid expansion of commerce in regions on the West Coast of South America, has lead to the further sale to Grace & Company of three additional ships of 8000 tons each, and the extension of the guaranteed service until 1931.

This most important medium for the promotion and protection of American foreign commerce accordingly consists now of a permanent fleet of seven modern and efficient freighters under the American flag, with a tonnage totalling about 60,000 deadweight. It is significant that the successful maintenance of this line with privately owned American ships has been possible even in the face of extreme foreign competition.

At about the same time in 1923 the Board concluded with the Dollar Steamship Line what may be properly termed as one of the most advanced and important steps in shipping. The Dollar Steamship Line purchased seven large twin-screw combination passenger and cargo vessels of about 14,000 tons each and agreed to operate them for a minimum period of five years in a continuous round-the-world service, completing at least ten voyages per annum.



The Malolo, the largest liner to be built in an American shipyard, being launched at the Cramp's shipbuilding plant, at Philadelphia, for the Matson Line's Honolulu service.

The first sailing occurred in January, 1924, and since that time one of these crack "President" type liners has left American ports sailing westward every two weeks. There is not the slightest reason to doubt that this famous service is definitely and permanently established and, in addition to the reliability it affords American foreign commerce, the prestige gained to American shipping is beyond any calculation.

By the spring of 1925, the Board's trans-Pacific express passenger, mail and cargo service over the old Pacific Mail route from San Francisco, with five twin-screw passenger and cargo vessels, had been developed to such a point that a definite opportunity to dispose of it to responsible American citizens was afforded. The invitation for bids resulted in the sale of this service to the Dollar Steamship Line under an agreement that at least seventeen voyages per annum to the Orient should be furnished over a minimum period of five years. The service has been successfully continued for more than a year and is actually furnishing more than twenty-four sailings per annum.

A Large Cargo Service

IN the fall of 1925, the Export Steamship Corporation, of New York, purchased eighteen cargo vessels to be operated for a minimum period of five years with not less than sixty round voyages per annum, to the Mediterranean, North African, Levant and Black Sea ports. This service had been established by the Shipping Board under the trade name of "American Export Lines." This represented the largest undertaking of its kind under the American flag and probably the largest single fleet of privately owned American ships exclusively engaged on a limited trade route.

The Carolina Steamship Corporation, of Charleston, S. C., by purchase, also took over in the fall of 1925 six similar type vessels for operation on the trade route covered by South Atlantic ports to United Kingdom and North Continental ports. The highly competitive element of foreign operations in this service, however, proved an impossible factor to withstand especially with the ruinous rate cutting after the service left governmental ownership, and to safeguard its continuance the Board was compelled to take back the service in the spring of 1926, to be operated by the Board until conditions will permit of further efforts to transfer to private ownership.

In 1922, the Shipping Board had instituted a service absolutely pioneer in nature between Pacific Coast ports to the East Coast of South America, under the trade name of the Pacific Argentine Brazil Line. By the latter part of 1925 this service was sold to the McCormick Steamship Company, San Francisco, under an agreement for its continuance over a minimum period of five years with not less than ten sailings per annum. Notwithstanding the entry of a highly competitive foreign motorship service coincident with the transfer of this line, it may be confidently anticipated that the permanency of this American service is assured.

Sold to Munson Line

IN December of 1925 the Shipping Board sold to the Munson Steamship Line the swift passenger service that it had established between New York and Rio di Janeiro, Montevideo and Buenos Aires. Five passenger liners of the "President" type make up the fleet of ships that have cut down the sailing time between North and South America and drawn the two continents closer together.

Inaugurated shortly after the close of the war, the Pan-American Line was started with ex-German steamers, but later developed with these American-built liners. Conducted at a loss during the first few years, the service was developed to the point where private capital was willing to take it over, at the same time guaranteeing to maintain it over a period of years under the American flag.

In January, 1926, the service inaugurated and established by the Board between New York and other North Atlantic ports to South and East Africa was sold to the American South African Line, Incorporated, for guaranteed operation over five years with a minimum of twelve sailings per annum. This is a most important vehicle for American imports and exports over a trade route formerly dominated entirely by foreign flag tonnage.

In the spring of 1926 the express passenger mail and cargo service maintained by the Board from Puget Sound to the Orient, with five sister ships to those sold for operation from San Francisco to the Orient, was sold to the Admiral Oriental Line, which had operated the service for several years as managing agent of the Shipping Board. This sale likewise provides for at least seventeen voyages per annum over five years and affords the great Northwest a reliable express American flag service for the exchange of its products for the wealthy importations from the Orient.

(Continued on page 255)

Amsterdam As a Financial Center

By GEORGE E. ANDERSON

The Dutch Have Been Bankers for the World for Many Centuries. Played Large Part in Financing Construction of American Rail Lines. Change in Banking System Brought About by Wartime Expansion Gave Holland a Number of Large Modern Banks.

IN spite of the somewhat inchoate reputation greatly accentuated and somewhat exaggerated by Mr. Canning's rhythmic aphorism

"The fault of the Dutch
Is giving too little
And asking too much"

there is a reliance upon Dutch finances which gives weekly financial reviews from Amsterdam a unique authority.

This lies not merely in the fact that Holland succeeded in maintaining the value of its guilder during and since the war to a remarkable degree but it also rests upon a great tradition. For a number of reasons the suggestion of the Dawes commission that Germany's new bank of issue be established upon neutral Dutch territory was not adopted, but that suggestion was sound in many respects other than those purely political, resting upon the practical convenience of the bank itself in exchange operations in both ordinary commerce and in reparation matters, and also upon a long line of precedents in which Holland has held a premier position in the world of international finance.

Present commercial and financial conditions in Europe establish a peculiar ascendency in Holland in continental financial affairs, and Holland's present unique position is little different from that which it has held since the beginning of modern finance.

A Financial Go-Between

AMSTERDAM has been one of the financial centers of the world for centuries. It has been the financial go-between in the international politics of Europe particularly since the days when Catharine II of Russia and Frederick the Great of Prussia raised their war loans upon its Bourse and its hold upon the present-day situation of financial Europe is scarcely less important.

From the dawn of modern finance, Holland has been in the banking business. The Dutch people have a faculty for combination and organization which led to archaic banking for local purposes long before banking was known in other countries. When Shylock was having his little difficulty with Antonio in Venice his counterpart was having troubles of his own along similar lines up next to the Zuider Zee.

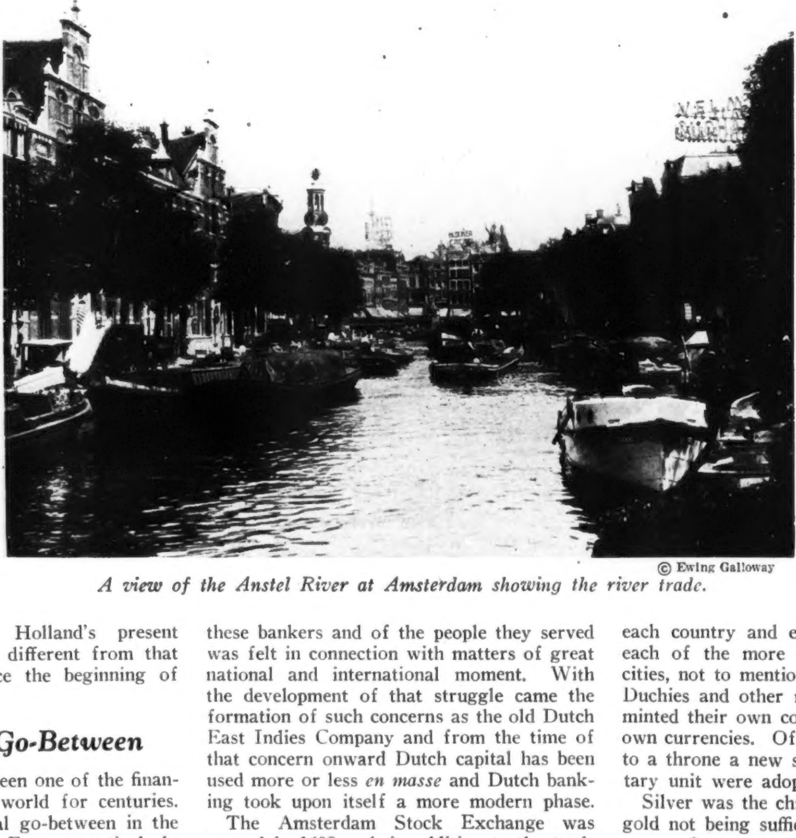
All through the middle ages Dutch money lenders were known all over Europe, but it was not until the struggle of the Dutch against Spain from 1568 to 1648 that the necessity of combination in using capital of these bankers and of the people they served was felt in connection with matters of great national and international moment. With the development of that struggle came the formation of such concerns as the old Dutch East Indies Company and from the time of that concern onward Dutch capital has been used more or less *en masse* and Dutch banking took upon itself a more modern phase.

The Amsterdam Stock Exchange was opened in 1608 and, in addition to the trading in the stocks and bonds of such concerns as the Dutch East Indies Company, the West Indies Company, and similar organizations, the capitalists of that day traded in the bonds of various governments, the first recorded exchange business in government securities and to a certain extent in international exchange. Even at that time foreign investments interested all classes of Dutch people. Not only the wealthy and speculating classes but retired business men, small traders, even the servant class, were accustomed to think in terms of foreign loans and from that day to this they have never lost this national disposition.

The larger fortunes of the country in the earliest days were almost invariably in foreign securities while the savings of the common people combined in a support whose total strength made Holland financially great at a time when such cooperation was unknown elsewhere. When England was in financial chaos and the continent of Europe was even more backward than England in finance, Dutch burghers were combining their savings in the projection of large enterprises and were founding financial institutions which have served as models for all time.

Amsterdam's—and Holland's — development as a financial center came primarily as a necessity of the times. During the sixteenth century and even the first half of the seventeenth century, there was the greatest disorder in the monetary affairs of Europe. Not only each country and each sovereign, but even each of the more powerful provinces and cities, not to mention the long list of Grand Duchies and other minor political divisions, minted their own coins and established their own currencies. Often, with each succession to a throne a new system and a new monetary unit were adopted.

Silver was the chief medium of exchange, gold not being sufficiently plentiful to form a very large part of the circulating media. There was a multiplicity of coins of varying standards of weight and fineness and of general current value. There was no system for the retirement of coins which had become worn or mutilated. Commerce was



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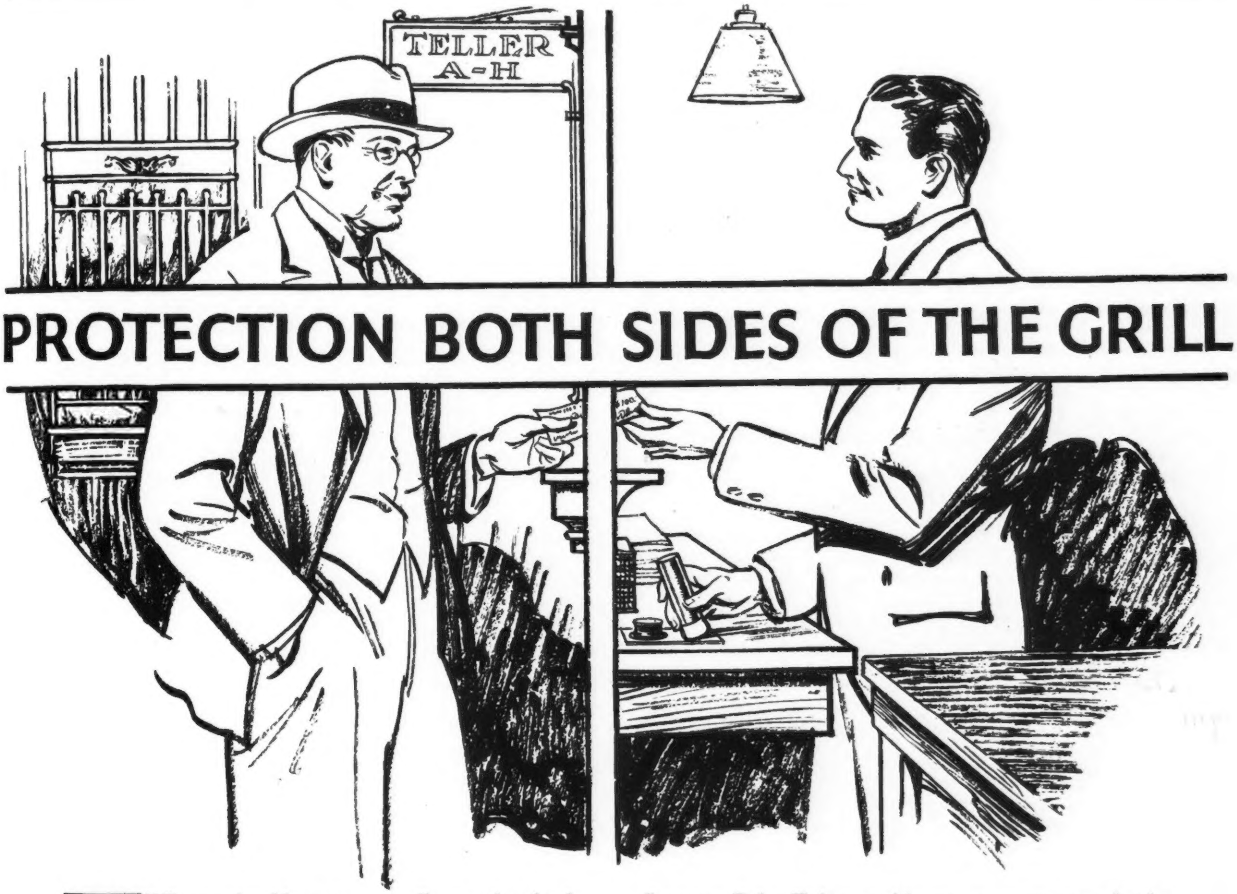
A view of the Anstel River at Amsterdam showing the river trade.



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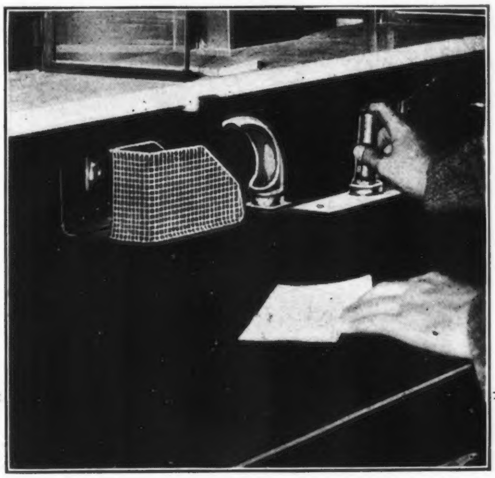

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hampered in every transaction by the lack of a fixed or reliable standard of value and since commerce among the countries of northern Europe, not only as between various countries but also as between northern Europe as a whole and the East Indies and America, was greatly on the increase, the necessity of some means of adjustment became more and more pressing.

At the end of the sixteenth century Holland, largely because of its trading adventures in the Far East and America, had become the chief market for securities of all kinds and the Amsterdam Stock Exchange was formally established in 1608.

In 1609, after a year of preparation, the Amsterdam Exchange Bank (De Amsterdamsche Wisselbank) was opened for business for the purpose of fixing and maintaining the value of Dutch currency and of an exchange value between the various monetary media in which the commerce and stock exchange transactions of the day were carried on. The city of Amsterdam held itself absolutely responsible for all of the engagements of the bank, which was, in fact, the precursor of the long line of national or government banks which later became so powerful a factor in the financial and political life of the future.

The "Rixdale" Created

THIS bank in some respects has been unique in history. For the first time in history it not only established a ratio between the currencies of the several nations of Europe, but for the first time, also, as a result of its peculiar position, its government support, and the special and peculiar sanctions thrown around its transactions, it secured and maintained a reputation for integrity and infallibility which became the foundation for its dominating position in European finance for many years and which to some extent is the foundation of that tradition or reputation of Dutch finance for strength and integrity which exists at the present day.

The bank was early authorized to maintain the standard of Dutch currency by the withdrawal and recoingae of worn and mutilated currency. It fixed and maintained a value for all currency, both Dutch and foreign, by establishing an official standard theoretical coin or rather unit known as a "rixdale" which in practice became a theoretical standard by which all coins were measured and in its vaults in the earlier days it maintained at all times actual gold and silver to the full value of the amount of these theoretical standard units represented on the books of the bank. No matter what currency was paid into the bank, Dutch or foreign, or uncoined gold or silver bullion, the credits were entered in the corresponding value of this theoretical standard currency. Money was paid out in Dutch or foreign coins on the basis of this same standard unit. The result was that commercial transactions were soon carried on in terms of this standard unit and this led to a system of transferring credits from account to account on the books of the bank which was not only the beginning of the modern checking account but which in time also led to other important developments for the receipts of the bank for money deposited came to be passed from hand to hand and thus in fact became currency—the precursor of the modern banknote.

In time the reputation of the bank for absolute reliability became so widespread over Europe that its money and its receipt-currency became practically a measure of international exchange and the standard unit in most international financial transactions. They were very careful of the reputation of that bank. Defalcation or fraud in its personnel was punished with death. An accountant named Flick was executed in 1673 for having made serious errors in his work.

Rise to Dominance

SUPPLEMENTING this high reputation of Amsterdam's great bank came practical results and benefits from increasing commerce. Shipments of gold and silver from the Americas and the East Indies came to be considerable and they came mostly to Amsterdam, both because a considerable proportion were due to Dutch investments and also because the exchange standards of the Dutch system afforded a convenient means of transferring this gold and silver to the currencies of other countries. Merchants of the whole of northern Europe found it convenient to carry their accounts in the Dutch bank and in its standard currency. In short, the Dutch rixdale, later coined and known as the "kruisryksdaalder" or "royal thaler with a cross" in the seventeenth century, and even later, was what the British pound sterling became in international transactions a century later, or what the American dollar has now become if we are optimistic about the domination of the dollar in international finance.

At the opening of the eighteenth century the Dutch standard was the unit of value for most important transactions in the international relations of Great Britain, France, Spain, Portugal, Italy, Germany, Russia and the Baltic States, in short, for the commercial and financial world of that time. And this Dutch daalder or thaler, with slight modification, became the origin of the American dollar.

Floating Foreign Loans

IT followed as a matter of course that during almost the whole of the seventeenth century most of the central European countries as well as Russia raised their foreign loans primarily on the Amsterdam market.

The dominance of Amsterdam in such matters became so pronounced that speculation on the Amsterdam Bourse dealt in securities covering the entire world. For more than a century the Amsterdam market practically controlled the international finances of central Europe.

In 1694 the Bank of England was founded on the model of the Amsterdam Exchange Bank. Dutch financial circles were under eclipse during the Napoleonic era but, with the downfall of Napoleon, William I established a new bank of issue known as the Nederlandsche or Netherlands Bank, which commenced operations April 14, 1814. It is the bank of issue of the country today and is not only one of the strong banks of the world but its directors have been of such authority in the financial world that they have been called repeatedly for international service.

The part taken by Holland in the financing of American railway construction in the period after the Civil War was remarkable

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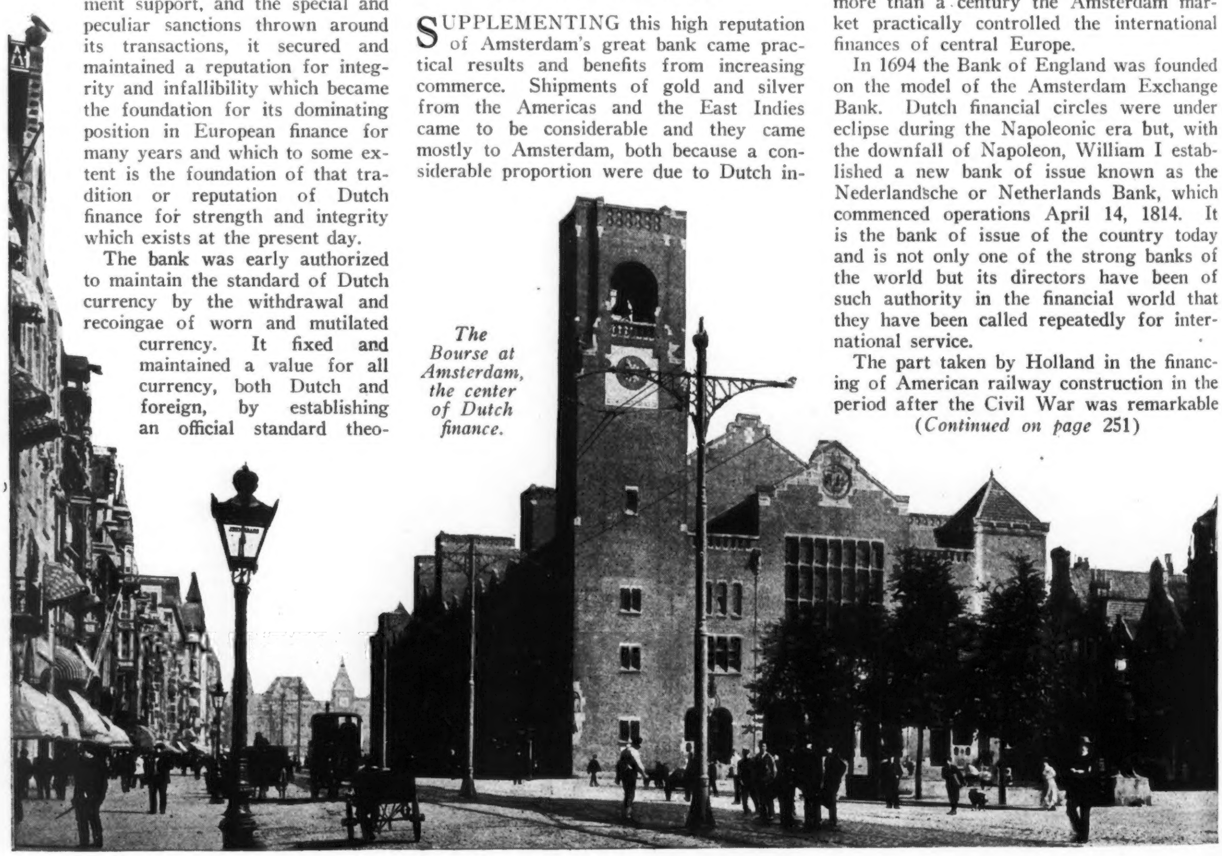

The Bourse at Amsterdam, the center of Dutch finance.

Letters From a Banker to His Son

By ROY L. BONE
State Bank Commissioner of Kansas

The Young Man Has Made Some Loans That Do Not Quite Come Up to the Old Gentleman's Requirements and He Comments On Them Frankly, Suggesting That It Might Be Well For Theodore to Scrutinize Them More Carefully. Potter's Loan.

PETERSBURG, Oct. 15, 1926.

MY DEAR THEODORE:

Your mother has just told me you had phoned her that you would not be home this week-end as you had planned, and I am just a little bit disappointed. Ever since I got back from Clinton I've been thinking about some of the things that came up at your board meeting last week, and I wanted to have a heart-to-heart talk with you about them.

You know you can't give things the same emphasis in a letter that you can in a good old-fashioned talk, and what I have on my mind now really needs some little emphasizing, and that's the reason I'm disappointed that you're not coming.

Call for Smelling Salts

YOU'LL naturally wonder why I didn't have my say while the board was in session, and maybe that would have been best, but after calling you down so hard for not having the minutes of your last meeting written up, I didn't want to cause you any more embarrassment before your directors. The chances are that if I had unbosomed myself completely, as I probably would have done if I'd ever got started, the minutes of this last meeting never would have been written up.

The thing that has bothered me more than anything else is some of the loans you've been making since you went out to Clinton, and the one that I'd like to forget is the $800 you let Wash Potter have. You know I just couldn't believe my ears when I heard you tell the board about that note, and when you said he had borrowed the money to pay for a pedigreed Jack he'd just bought, and that you had taken a chattel mortgage on it, I certainly wished for my smelling salts.

In the first place, you had no business making that kind of a loan, especially to a fellow like Wash Potter. Now, I've known Wash for a good many years, in fact he drove me all over your county when I went out there to organize that bank, and while he's a good enough fellow, as the saying goes, everybody knows that he never had $800 together at any one time in his whole life. All he ever had was a buggy or two and a team of ponies, and he never made enough in his busiest days to keep them and his family well fed at the same time. As a matter of fact, he was busted when he landed out there, and until he got this $800 from you, about the most you could say for him was that he had succeeded in holding his own. There's nothing but trouble in that sort of a loan, and the thing I'm afraid of is that you've made a purchase instead of a loan, and before you get through with it you'll find yourself in the breeding business. The demand for mules isn't as strong as it was before the gas tractor got to competing with them, so if I was in your place I would begin making plans to charge this note off before a great while. Sooner or later you're going to find yourself in possession of the security behind this Potter loan, and when you do, for my sake as well as your own, don't let the examiner find that jackass in your "Other resources" account, for if he does he'll just naturally suspect that there was another one of the two-legged variety running loose in the bank when the loan was made, and I'm not saying that he wouldn't be guessing pretty close to the truth.

Watch Chattel Mortgage Loans

THERE are two kinds of chattel mortgage loans, the good ones and the bad ones, and if this Potter loan is a fair sample of your judgment on them, it looks as though you are pretty apt to pick the bad ones. The fellow who has nothing but his team and wagon to offer as security for a loan would in most cases be a whole lot better off if he didn't get it. And the banker who makes it would be a whole lot better off, too, if it comes to a point where he's got to take the team and wagon in order to protect the loan.

I know a lot of bankers who go pretty strong on these small chattel mortgage loans, but somehow I just can't string along with them. If a farmer has plenty of corn and roughness, and knows his business and wants to buy a car or two of feeders, he'll never have any trouble getting the money from me. Maybe he's dairying, selling milk and cream, and needs a few more good milch cows. If he's in shape to take care of them, you'll find it a pretty safe loan, providing, of course, he's the right kind of a chap to begin with. Or maybe he's boring with a bigger auger and wants to summer several hundred head of steers on coarse grass. If he's got a little money of his own to put into them, you're not taking such an awful big chance on him, but you want to know that he is a good caretaker and understands handling cattle. Chattel mortgage loans of this kind don't often give you a whole lot of trouble, but when you get to making loans on farm implements, threshing machines, trucks and tractors, you're liable to wake up some day and find yourself in the second-hand implement business.

And when you make a fellow like Wash Potter a loan to buy the business end of a breeding barn, it's a pretty sure sign you're looking for trouble.

Small Loans Mount Up

ANOTHER thing I noticed when we were going over your loans at the meeting was the large number of small loans you'd made to some of the fellows who work over at the canning factory. I didn't make a list of them, but there must have been fifteen or twenty of them all together. Most of them were for $50 or such a matter, but two or three, as I recall it, were up around a hundred or a hundred and fifty. Now, I don't remember ever seeing so many of these small notes in the Clinton bank before, and when I heard you tell who some of the makers were, I couldn't help but wonder if you weren't starting another brand of trouble that would sooner or later take your mind off the Wash Potter loan. For instance, there was the Howard Tomson note. I think it was for $75, and if I'm not mistaken, you said he led the singing where you've been attending church, and I believe you commented at some length on the moral risk too, but I don't remember hearing you say that he had anything in particular except his job and a wife and seven children.

You hear a good deal about this "moral risk" today, and that part of it is all right, in fact I wouldn't make a loan without it, but there's a mighty sight of difference between a man's willingness, his intention or his desire to pay a note and his ability to pay it, and after it's all done and said, it's his ability to pay that you've got to count on when the time comes to collect the note. Now understand, I'm not doubting but what Tomson is a good square fellow, honest and all that, and wouldn't think of beating a fellow out of a dollar if he could help it, but if he's lived long enough to raise a family of seven children and hasn't set aside $75 for the "rainy day" that always comes along sooner or later, I can't say that I consider him an extra good risk for a bank, and my guess is that you would have turned him down if you'd been loaning him your own money instead of the bank's.

Now, you may think this is pretty cold-blooded reasoning, and I'm not disputing it, but if you had been sitting on the lid as long as I have and knew the outcome of this class of loans as well as I do, you'd understand why a lot of us old codgers are still wearing long underwear instead of

(*Continued on page* 263)

Investing the Assets of the Bank

By E. V. KRICK
Cashier-Treasurer, Mercantile Trust Company of California, San Francisco

American Banks in Actual Practice Keep About 65 Per Cent of Deposits in Loans and Investments. Investment of 16.2 Per Cent in Bonds Appears Consistent With Sound Banking Opinion. Liquidity of Investments Important. Rediscount Privilege Helps.

THE investment of bank assets or the investment of bank funds in assets involves the very fundamentals of banking—the principles governing sound banking and the relationship of the bank to the community. A perusal of state and Federal bank laws and of national and Federal bank acts will furnish sufficient evidence of this in that the major portion of the text is devoted to laying down regulations controlling the investment of funds on deposit.

The judicious and far-seeing banker will never lose sight of the relationship a bank bears to the community. This relationship is not new nor is it confined to any one country.

It is apparent that safety and liquidity lay proper claim to the banker's primary consideration. All things being equal, however, earnings may become the determining factor in making an investment.

Perhaps this definition: "Sound investment is lending surplus funds at a fixed rate with sufficient security to insure prompt payment of interest and principal" may be used as setting forth the banker's viewpoint.

In the consideration of this subject, it is obvious that the various banking laws, business and economic conditions, preclude finding any nation-wide uniformity of investing or any set formula for investing.

Sound Banking

THE average bank under normal conditions would show a proper position, according to the author, if its investments of depositors' funds stood: Cash, due from banks, exchanges, United States government securities, 25 per cent; other bonds 10 per cent and loans and discounts 65 per cent. It is assumed, of course, that the loans and discounts are liquid. In actual practice, the chartered banks of this country do not depart very much from these figures although each bank is governed by its own requirements.

Segregation of Funds

THE investment of the funds received on deposit very naturally separate themselves into demand and time funds, or into commercial or savings deposits. The segregation of these funds for investment purposes is something which many of the states do not require, yet the distinction between the two types is quite marked.

While demand deposits should not be used for capital loans, time or savings funds may be used with a certain limited justification for commercial purposes. The banker, however, has his obligation to the community to avoid diverting funds of either character to the point that commercial activity or permanent improvements will be retarded. There is a proper balance to be maintained.

The field for investment of deposits is really limited to the general classifications of cash, due from banks, exchanges, bonds, loans and discounts. The investments in these groups represent the sources of liquidity and should be the only accounts to which depositors' funds are diverted.

The banker has his obligations to meet. On the one hand he has the responsibility of promoting commerce and trade and the interests of the community generally, and on the other, that of preserving liquidity to the point that he himself is in a position to repay his depositors. The latter responsibility is paramount. In investing the bank's funds, the question very naturally arises as to what constitutes a proper proportion of investments in the various outlets permitted to banks.

An attempt has been made to obtain statistics and opinions to give a crosscut of national actual experiences regarding percentages of demand and time deposits that are carried in the various types of investments. Due to the fact that few laws call for a segregation of demand and time money as to investments, the facts obtained for segregated departments are quite limited. Ninety questionnaires were sent out, spotting the country, resulting in fifty-seven answers. Only five answers contained statistics on savings or time deposits.

The following tabulation covers savings deposits of five banks, with total deposits of $370,071,865, where investments of time funds are required to be kept segregated:

	Amount invested	Per cent of deposits
Cash and due from banks..	$ 56,873,172	15.37
Real estate loans	165,542,674	44.73
Secured loans	62,991,773	17.02
United States government securities	30,047,043	8.12
Other securities	54,617,203	14.76
Total	$370,071,865	100.00

This information is so meager that it is not of particular value except as an indication of actual practice. In searching for information I was able to find a set-up that is being used as an ideal for a savings bank.

The percentages are averages worked out from figures selected in May, 1925, from statements of twenty-five savings institutions or departments in the states of New York and California:

Cash	.07
Due from banks	3.45
*Bonds	24.59
Real estate loans	70.00
Secured loans	1.89
	100.00

*Approximately one-half of this account should be composed of United States government securities.

Because of the fact that the majority of banks throughout the country are not required to segregate investments for time and demand deposits, the most comprehensive statistics obtained are for combined deposits.

Big City Bank Investments

A QUESTIONNAIRE was sent out to fifty-seven banks in central reserve and reserve cities. Six banks in central reserve cities reported that they had total deposits of $2,789,259,220. The distribution was:

	Amount	Per cent
Cash and sight exchange..	$ 794,583,068	28.49
Loans and discounts......	1,804,540,790	64.69
U. S. Govt. securities.....	111,096,254	3.99
Other stocks and bonds...	79,035,108	2.83
Total deposits	$2,789,259,220	100.00

Statements of condition for fifty-one reserve city banks in nine Federal Reserve districts, combined with the six banks in central reserve cities, reveal this distribution:

	Amount	Per cent
Cash and sight exchange..	$2,190,974.446	26.60
Loans and discounts......	5,328,028,356	64.59
U. S. Govt. securities....	406,748,689	4.99
Other stocks and bonds...	308,787,144	3.75
Total deposits	$8,234,538,635	100.00

The large number of banks included and the various communities represented conceal or destroy what a more detailed classification might present. The requirements of central reserve cities, industrial centers, agricultural districts, have a wide variance and are not comparable. What would be proper percentages for one would contain hazards for another. Seasonal demand is

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AMERICAN CHECK PROTECTORS

What is probably the largest single order for machines designed to prevent the raising of bank checks was placed several weeks ago by one of the French agents of the American made "Safe-Guard Check Protector." The total figure involved in the sale is close to a million francs and the 900 branches of the bank will soon be equipped with the machines.

The bank's decision to thus equip its branches is part of the general propaganda now going on in France in favor of increasing the use of checks in order to aid in reducing the note circulation.

GENERAL MOTORS IN ENGLAND.

LONDON, Aug. 28.—General Motors, the American automobile combine, has acquired control of the Austin Motor Co., Ltd., one of the ...

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another factor that may alter the figures from time to time. The final analysis, of course, is that of the individual bank, and it is governed by its own requirements. From the figures cited, however, there may be deduced facts that may become a helpful guide to a banker in determining his own investment policy.

The test period of the banker comes so seldom, and the stability of the Federal Reserve System is such that there is danger that the banker's policy of investment may be influenced by demands for loans rather than by responsibility to repay the depositors.

While the great majority of bankers with whom I communicated appeared reticent about expressing themselves as to ratios, some opinions have been gathered from them and from other sources. These facts may in a way confirm the figures reflecting actual experience.

How Funds Are Invested

THE status of the 8000 Federal Reserve member banks at the close of business on April 12, 1926, as reflected in the consolidated returns combining investments of demand and time deposits, shows that 51.83 per cent of the total deposits were demand and 30.83 per cent were on time. Loans and discounts constituted 66.99 per cent of the total deposits, while investments in securities amounted to 34.82 per cent. Cash and sight exchange represented 17.79 per cent. Thus the excess applicable to capital funds was 19.60 per cent, while the depositors' funds invested in the bond account amounted to 15.22 per cent.

The detailed figures for 363 banks in reserve cities and the corresponding figures for 7601 country banks are given below:

	Reserve City Banks 363 Banks		Country Banks 7601 Banks	
	(In $1,000)	(Percentage)	(In $1,000)	(Percentage)
Due to Federal Reserve Banks	$ 9,627	.15	$ 26,158	.28
Due to National Banks	501,975	7.85	99,924	1.06
Due to other banks	781,587	12.22	269,955	2.86
Certified checks outstanding	17,496	.28	14,598	.15
Cashiers checks outstanding	56,567	.88	46,696	.50
Demand deposits	3,428,325	53.60	4,568,808	48.38
Time deposits	1,452,846	22.71	4,370,535	46.28
United States Government deposits	148,430	2.32	47,237	.50
Total deposits	6,396,853	100.00	9,443,911	100.00
Cash in vaults	91,191	1.43	237,788	2.52
Reserve with Federal Reserve Banks	425,004	6.65	478,490	5.07
Due from National Banks	362,110	5.66	637,459	6.75
Due from other banks	205,837	3.21	143,302	1.51
Total cash	1,084,142	16.95	1,197,03[illegible]	15.85
Transit Items:				
With Federal Reserve Banks for coll	283,393	4.43	80,372	.85
Exchange for Clearing House	178,494	2.79	36,514	.39
Checks on banks same place	14,563	.23	24,178	.25
Outside checks and other items	29,878	.47	18,527	.20
Redemption fund due from U. S. Government	7,420	.11	23,806	.25
Total transit	513,748	8.03	183,397	1.94
Total cash	1,597 890	24.98	1,680.436	17.79
Loans and discounts including rediscounts	4,220.305	65.98	6,312,720	66.85
Overdrafts	2,900	.05	7,382	.08
Customers liability account acceptances	78,450	1.22	6,247	.06
Total loans and discounts, etc	4,301,660	67.26	6,326,349	66.99
*Securities:				
United States Government securities	811,373	12.69	1,165,692	12.34
Other bonds, stocks and securities	716,385	11.20	2,123,423	22.48
Total securities	1,527,758	23.89	3,289,115	34.82
Excess applicable to capital funds......(RED)	1.030 455	(RED) 16.13	(RED) 1,851,989	(RED) 19.60
Depositors funds invested in bond account	497,303	7.76	1,437,126	15.22
	$6,396,853	100.00	$9,443,911	100.00

*The percentages covering these accounts as set opposite the amounts are the actual percentages that bond accounts bear to the total deposit (no deductions made for bank capital in these accounts).

In compiling these tables the bond account was arbitrarily selected as the cushion account to absorb the excess deposit funds in order that disposition of 100 per cent of the deposits might be shown. This idea was based upon the reasoning that the average banker, when he has and expects a supply of idle funds for a long period, will be inclined to go into the bond market or short-term security market to utilize a part of the funds.

Reserve System Brings Reduction in Bonds Carried

THE rediscount privilege afforded by the Federal Reserve System has a very direct bearing on liquid funds, as its successful operation has made possible the reduction of necessary cash and bonds to be carried. It will be recalled that Federal Reserve legal requirements originally stood at:

	Demand	Time
Central Reserve cities	18	5
Reserve	15	5
Others	12	5

as against the present:

	Demand	Time
Central Reserve cities	13	3
Reserve	10	3
Others	7	3

As an indication of how this rediscount privilege has changed banking practices, it was shown before the American Academy of Political and Social Science in 1907 that all chartered banks in the United States had 16.94 per cent of their deposits in bonds, exclusive of United States government issues. Questionnaires sent out to bankers in all parts of the country developed the opinion that 22 per cent of the deposits should be devoted to a bond reserve. Bankers in the New England states recommend 26 per cent, while those in the eastern states recommend 29 per cent.

The percentages in comparison with actual present holdings in securities of 8000 banks, as shown below, give evidence of a feeling of security and liquidity that bankers of twenty years ago apparently did not share.

District	Number of banks	Per cent that bond accounts bear to deposits (U. S. Government securities not included)
Boston	380	18.39
New York	737	18.34
Philadelphia	673	25.10
Cleveland	745	22.90
Richmond	536	10.54
Atlanta	379	10.72
Chicago	1038	13.04
St. Louis	496	15.16
Minneapolis	736	16.78
Kansas City	984	10.87
Dallas	726	4.82
San Francisco	564	12.62

In the aggregate, of 8000 banks with over twenty billions in deposits, 16.20 per cent of this was invested in bonds.

It should be noted that 10 per cent (plus) of actual depositors' money is invested in bonds and 6 per cent (plus) of the banks' capital makes up the balance of the 16.20 per cent.

The percentage drop in requirements for legal reserves, as compared to the percentage drop in investments in bonds, is quite consistent for the country as a whole. The average drop in the legal reserves required was approximately 30 per cent. The average percentage of bond investments (U. S. government securities excluded) recommended before the Federal Act came into being was 22 per cent. The actual average figures of 8000 banks on April 12 was 16.20 per cent, or a drop of 26 per cent plus.

The fact that the percentage drop in the amounts invested in bonds is nearly the equivalent of the drop in legal reserve requirement would seem to argue that the 16.20 per cent is approximately the proper figure consistent with sound banking opinion.

The liquidity of investments of time deposits may not be of as pressing importance as that of demand deposits, but the question most certainly is of sufficient importance to engage serious consideration of those bankers controlling the investments of savings. This is true not only from the standpoint of liquidity, but from that of community building. Inasmuch as the major portion of savings deposits (those of strictly savings banks) is invested in real estate loans, a program of orderly liquidation seems advisable so that in the absence of heavy withdrawals funds may be regularly available for building development, particularly home building. Such statistics as I was able to obtain indicate that investment of such funds in real estate loans should range not to exceed from 60 per cent to 70 per cent of deposits. The ideas as to liquidation of these loans vary considerably.

A turnover of real estate loans once in five years seems to be a satisfactory condition.

65 Per Cent in Loans and Discounts

THE liquidity of the commercial bank rests almost entirely on the condition of loans and discounts. This is predicated, of course, on the supposition that reasonable percentages are carried in actual reserves or actually liquid secondary reserves.

While the results of this study cannot be refined or condensed to the point of producing a formula to be used in an irrespective manner, the deduction can be made that the average bank under normal conditions

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Federal Warehouse Receipts

By C. B. SHERMAN
U. S. Department of Agriculture

What the Department Has Done Through This Instrument to Help the Farmer Realize on Crops and To Make It Possible for Bankers to More Readily Aid Agriculture. Examinations, Comparable to Bank Examinations, Made Four Times a Year.

IN framing the U. S. warehouse act, it was the intent of Congress so to word the legislation that out of it should come a warehouse receipt that should be acceptable generally to bankers as security for loans. That was the outstanding purpose in framing the law and it is the outstanding purpose in administering it in a practical way today.

As a result, we have largely passed from the stage where a farmer offered to his banker a slip of paper receipting merely for "one bale of cotton stored" to the stage where a farmer in asking for a loan offers a warehouse receipt that gives on its face a true and complete story as to what is back of it in the way of security—a definite specific contract between the depositor and the warehouseman both with respect to the depositor and the care of his product.

The U. S. warehouse act is a permissive statute, not mandatory, but the law gives to the Secretary of Agriculture the authority to say who may or may not operate under the law. It authorizes the Secretary to license a public warehouseman and to make certain regulations under which such licensed warehouses must operate.

The Secretary of Agriculture licenses warehouses only after a thorough investigation to determine whether the warehouseman is competent, that he knows how to care for the product in question, that he is honest in his business relations, that he is financially responsible, and that he has men at the warehouse who know how to care for the product.

The Meaning of the Receipt

THE thing that gives the Federal warehouse receipt life is the fact that not only are these warehousemen investigated carefully before they are licensed, but afterward they are under constant supervision on the part of the government in somewhat the same way that the national banks are subject to supervision by the national bank examiners. Every warehouse is subject to four examinations each year, at irregular intervals, by men who operate directly through the Secretary of Agriculture.

Investigators often find unsound and questionable practices when making their first examinations. To the invariable defense that they are trade practices, the investigators find that the best response is "Yes, but how much credit can you get on your receipts?" As a general proposition, the average warehouse receipt has no standing for loan purposes outside of a very restricted circle.

In the financial statement of one warehouse that applied for a license, there appeared in the assets an item for property valued at $500,000, and among the liabilities was a note for $250,000 secured by the property. Close questioning regarding this statement, filed under affidavit, brought out the fact that the corporation not only did not have title to the property valued at $500,000, but really had no claim on it.

For the last year, all licensed cotton warehousemen have been obliged to have their receipts printed on especially prepared and protected paper, which can be secured only through one printer who is under contract and bond with the Department of Agriculture. The manufacturer of the paper is also under contract and bond. Probably no system can be devised which will absolutely eliminate the possibility of a fraudulent issuance of receipts, but the precautions taken by the Department are believed to constitute the most advanced steps yet taken. These precautions are now being extended to cover all receipts issued by licensed warehousemen, regardless of commodity.

Under some of the warehouse laws of the states, a warehouseman is permitted, if his warehouse becomes filled, to ship the products on to another warehouse while the receipts are outstanding. Some time ago, in doing a piece of work for the War Finance Corporation in Montana and North Dakota, warehouse receipts were found outstanding which were supposed to have been covered by grain in warehouses, but the grain had been moved on to Duluth, perhaps even on shipboard, while the bank was still holding the warehouse receipts.

Any number of similar illustrations could be cited. Recently a bank was reported to be obliged to write off $2,500,000 because of bad warehouse receipts. So far, under the warehouse act, there has not been a loss. Recently in addressing the warehouse workers in his Department assembled in Washington, the Secretary of Agriculture concluded with the admonition: "I charge you on behalf of the American farmer to maintain the integrity of the warehouse receipt."

Receipts Generally Acceptable

THE work under the warehouse act has now reached a point where the receipts of Texas or California warehousemen are as acceptable in St. Louis or New York as they are in California or Texas because of the sound administration back of the act. The aim is to grant favors to none, to give everybody a square deal, to use every practical precaution, and thus to accomplish the outstanding purpose of the act: The development of a warehouse receipt which will be generally acceptable to bankers as security for loans.

An official of one of the leading banks in New York City, that deals extensively in warehouse receipts, in speaking of the work under the warehouse act, wrote: "The necessity for making a receipt good in any money market explains the extreme care with which this system is being extended. The right kind of a receipt will open money markets everywhere; the wrong kind of a receipt will not open a market anywhere. Precautions have been taken against all the practices that sometimes have made a scandal of the warehouse receipt, and licenses are issued only to competent persons of some financial responsibility who are engaged in public warehousing."

The first really effective entrance of the Federal warehouse receipt into banking channels as a credit instrument occurred in 1921, although, of course, progress had been made under the act previous to that time. In July of that well-remembered year in agriculture, the first of the large cooperative marketing organizations went to the newly revived War Finance Corporation to arrange for a loan. As security it offered Federal warehouse receipts. On the strength of these receipts its application for $7,000,000 was granted. A few weeks later another cooperative organization, on the same kind of security, was loaned $30,000,000. The Federal warehouse act had proved its value.

For two years the Federal Reserve Bank of St. Louis has operated under the policy that neither it nor its branches will accept warehouse receipts for agricultural products as collateral unless such receipts are issued by warehousemen licensed under the U. S. warehouse act.

The combined licensed storage capacity for the various products in March, which is not a large storage month, was:

Commodity	*Capacity*
Cotton	2,409,696 b/c
Grain	34,052,969 bus.
Wool	28,809,000 lbs.
Tobacco	654,799,500 lbs.
Peanuts	24,041 tons
Broomcorn	1,000 bales
Beans	144,862 cwt.
Potatoes	160,611 cwt.
Sirup	275,660 gals.
Dried Fruit	1,000 cwt.

These figures give some idea of the extent to which products are being stored under Federal license, but they do not tell the whole story by any means. Even figures for the peak of the year do not. The number of bales of cotton stored in Fed-

(*Continued on page* 251)

Europe, Saving More, Grows Poorer

By W. ESPEY ALBIG

Currency Debacles Have Not Changed Thrifty Habits of the Europeans. Number of Savers Grows. Savings in Their Money Units Are Larger But Total in Gold Is Less Than at Start of War. Have Gone on Basis That Currencies Would Come Back.

THE thriftiness of Europeans, celebrated for many years, has not changed as a result of the World War and the subsequent drop in the value of the franc, the lira, the mark, and the pound.

One would not know from reading the reports of savings banks in Belgium, France, Great Britain and Italy, since the close of the World War, that the currencies of these countries had suffered in terms of international exchange and that some of them were not yet on the same exchange basis as before the war. Savings bank reports would indicate that the customers of these banks do not rapidly change their habits of saving.

It might be expected that in the face of a persistent decline in the exchange value of any country's unit of currency, savings depositors would withdraw their funds from the banks and invest them in tangible property. In fact wide circulation has been given to stories which indicated that some nationals, disturbed by the drop in exchange, withdrew their savings for a spending orgy. It is extremely doubtful if these stories have much basis in fact as far as the savings bank depositors are concerned. An examination of the totals of deposits in the savings banks in each country mentioned reveals a steady growth in deposits since the close of the World War, when expressed in terms of the monetary units of the countries studied.

Americans have become accustomed to seeing frequently a quotation of European money in terms of gold and, as a result, are inclined to think that the Europeans regard their money in terms of gold relationship.

Disquieting in Gold

THE growth of deposits in savings banks in Belgium, France and Italy has been disappointingly slow when one casts the total up in gold. The persistent decline in exchange has prevented savings in these countries from reaching, on a gold basis, the mark recorded at the outbreak of the World War. However, their savings deposits in terms of their own currency units show a healthy growth and reflect to some degree the increased volume of earnings.

It must be borne in mind that the price index based on gold has not risen as far in some European countries as it has in the United States. As a result, some of the inhabitants of these countries have not felt the full force of the drastic fall of the exchange rate. Irrespective of the exchange rate, deposits in savings banks have increased, as has the number of depositors. Lack of authoritative information as to the growth of population makes it impossible to determine whether the increase in the number of savings depositors is keeping pace with the growth in population.

Without entering into a discussion of the character and the varying services furnished by the savings institutions in each country it should be noted that in Great Britain small savings are deposited, for the most part, in the trustee savings banks and in the Post Office Savings Bank, in France in the postal (*Caisse Nationale d'Epargne*) and so called "private" or "ordinary" savings banks, in Italy in the postal and "ordinary" savings banks, in Belgium in the *Caisse d'Epargne et de Retraites*, the Belgian official savings bank, and in Germany in the *Sparkassen* or savings banks. This article is a discussion of the situation as revealed by deposits in these banks and does not consider the time deposits in commercial banks.

More Savers In Britain

IN Great Britain the number of depositors in trustee savings banks increased from 1,918,000 in 1914 to 2,341,000 at the close of 1925, and no year appears to have registered a loss in comparison with the year preceding. Postal savings depositors, which numbered 13,500,000 at the close of 1914 had increased to almost 18,500,000 at the close of 1923.

The trustee savings banks showed deposits in 1914 of 53,500,000 pounds, in round numbers: as of 1916 this had increased to 55,000,000 pounds. The drive for money with which to finance the war reduced this in 1917 to about 53,500,000 pounds, by 1920 it was approximately 75,000,000 pounds, in 1923 80,000,000, in 1924 82,000,000, and in 1925 83,000,000 pounds. All this seems to indicate that the English people, during the war and following the war, despite the unfavorable change at times, thought only in terms of their own currency and deposited money in the savings banks in accordance with their previous practice without regard to the prevailing rate of exchange in terms of gold, or the purchasing power of the amount of money which they deposited.

Deposits in the Post Office Savings Bank indicate a similar trend. If the sums for these years were converted into terms of American money at the current rate of exchange, it would indicate a decreased amount of deposits in times of low exchange, which, of course, is contrary to fact and the conception of the English people themselves.

Happily, in international exchange the pound has regained the position it occupied before the war, which makes a study of savings deposits during the years when exchange was below normal more or less academic, since the deposits made at the time of lower exchange, if allowed to remain, now enjoy the pound's normal value.

The Italian Saves

IN Italy, the lira has not yet returned to its pre-war level. Here there was a gradual decrease in the value of the lira, insofar as the exchange rate is concerned, from 1914 to 1918, and a slowly increasing amount in deposit in the ordinary savings banks. At the close of 1914 these deposits amounted to 2,500,000,000 lira, which in 1917 had increased to about 3,500,000,000. At the close of 1922 when the lira was quoted at $.0509, savings deposits in the ordinary savings banks had increased to 9,250,000,000 lira. One year later it was slightly in excess of 10,500,000,000 and on January 31, 1926, it was in excess of 11,000,000,000 lira. The growth of the deposits in the Italian Postal Savings Banks is similar.

Converting these deposits into dollars shows, of course, less money in the ordinary savings banks of Italy now than in 1913. The average Italian savings depositor, however, continues on, using the savings banks for his money, and regards the present situation as an abnormal one, which in time he thinks is bound to be corrected.

It appears that the nationals of European countries, living in the United States, have shared the belief of their fellows overseas that the unstable currencies would eventually come back. Whenever the dollars they earned here would buy more lira, francs or pounds, there have been increased purchases of these currencies for remittance to their home countries.

A Blasted Idea

FRANCE has been pointed out as a country in which the savings bank depositor took a leaf from the book of experience of his German neighbor and decided to save his savings by spending them. There is scant testimony in support of this belief.

At the close of 1914 approximately 4,000,000,000 francs were deposited in the private savings banks of France by 8,600,000 depositors. At the close of 1920, by which time the franc was rated at about $.06, the deposits in the private savings

(*Continued on page* 254)

New Records in School Savings

AN impressive gain was made by the school savings movement during the past scholastic year, when the number of savers was enlarged by the addition of more than a half million students, and the bank balance grew to the new high total of $31,984,052. In all, there were 3,403,746 who participated in school savings, and the net savings recorded during the year 1925-26 was the highest yet established, according to the reports of the Savings Bank Division of the American Bankers Association. While the system has not yet been adopted by all of the states, it is shown that public schools in forty-one states and the District of Columbia have installed it as a practical means of educating the youth of America of the value of thrift.

The statistics reveal that the number of pupils participating has increased much more rapidly than the enrollment, so that it may be said that school savings is making definite headway throughout the country. While the question has been raised as to whether or not school savings enter into a gradual decline when the wave of installation passes, the figures show that there has been a steady increase in the several hundred districts which have had school savings for two or more years.

SCHOOL savings is developing greater popularity among the pupils as they come to a better understanding of it, according to W. Espey Albig, deputy manager, Savings Bank Division. "This growth indicates, too, better organized instruction in the schools on the value of thrift, of which school savings is a by-product," he says. "During the year noticeable progress has been made in comprehensive outlines for teaching thrift in the public schools.

"Depository banks, with propriety, may insist that, since their contribution to the success of school savings is without financial remuneration to them, it must not be labor and money wasted, and that the responsible school authorities shall set up definite instruction in thrift to the end that children shall have some knowledge of the comparative values when the school years are, for them, at an end. A system of school savings which does not consciously encourage regularity of deposits, and make unnecessary withdrawals difficult, falls short of its true mission."

"Further improvement in the school savings system lies ahead at no great distance, since at the present time general agreement is lacking among school authorities and depository banks as to the part the pupil may take in the mechanical processes incident to the actual depositing of the money received on "bank day." Another matter which is thought to need clarification is the content of the thrift instruction and its proper arrangements in the course of study.

NEW high totals in all features of school savings are shown by the statistical report as of last June 30, covering the continental United States. The number of systems reporting school savings increased during the year from 760, embracing 1557 districts, to 872, which embraces 1818 districts. The number of schools increased from 10,163 to 11,371; the number of pupils enrolled in schools having systems from 3,848,632 to 4,319,741; the participants in school savings from 2,869,497 to 3,403,746; the deposits from $16,961,560.72 to $20,469,960.88; net savings from $7,779,922.55 to $8,770,731.05; and bank balances from $25,913,531.15 to $31,984,052.63.

School Savings By States for 1925-26

	Number of Schools	Number Enrolled Pupils	Number Participating	Deposits	Interest Credited	Net Savings	Bank Balance as of June 30, 1926
ALABAMA	32	12,054	9,515	$37,362.40	$198.13	$18,628.45	$29,054.53
ARKANSAS	11	1,886	1,489	8,409.14	101.18	1,658.47	6,679.34
CALIFORNIA	1,765	409,279	214,903	1,022,380.89	108,519.96	631,255.09	3,813,297.79
COLORADO	68	30,971	....	5,216.60	....	5,216.60	39,570.86
CONNECTICUT	482	121,971	95,127	683,122.69	22,176.44	440,035.56	1,283,866.39
DELAWARE	44	18,763	26,097	202,998.48	6,099.27	76,662.29	254.565.30
DISTRICT OF COLUMBIA	54	25,081	6,409	46,795.04	....	46,795.04	46,795.04
FLORIDA	29	15,714	13,261	107,515.30	558.63	54,724.12	79,056.98
GEORGIA	114	72,387	44,259	199,140.94	4,837.35	69,218.57	266,476.82
IDAHO	2	372	192	817.22	5.10	562.32	562.32
ILLINOIS	512	171,882	137,118	1,153,317.00	26,696.91	342,843.91	1,472,161.44
INDIANA	314	128,505	86,222	607,851.64	12,480.72	236,423.18	752,438.30
IOWA	233	105,307	64,677	391,810.30	14,652.02	117,680.28	607,471.66
KANSAS	54	19,482	17,662	90,691.79	1,805.49	28,036.17	91,129.38
KENTUCKY	205	63,165	55,017	228,138.09	6,361.03	32,925.78	319,568.31
LOUISIANA	86	45,532	34,439	74,124.22	1,454.97	12,682.54	126,622.56
MAINE	133	32,790	19,259	53,451.15	1,712.18	50,024.77	105,460.28
MARYLAND	87	63,919	34,613	122,832.01	1,964.52	90,900.73	161,090.29
MASSACHUSETTS	967	334,181	206,924	1,302,569.21	19,389.09	830.591.49	1,970,623.27
MICHIGAN	426	154,670	128,077	781,029.46	21,348.74	273,257.97	1,181,258.64
MINNESOTA	490	176,165	153,568	616,710.01	8,185.93	382,785.04	976,537.92
MISSISSIPPI	9	2,416	2,125	21,974.28	....	11,816.64	19,526.64
MISSOURI	117	68,602	66,919	271,987.97	4,593.13	91,028.94	294,545.67
MONTANA	9	2,855	2,432	9,417.07	157.77	5,614.74	7,787.21
NEBRASKA	83	36,990	32,008	224,851.10	8,595.22	34,436.47	353,070.70
NEW HAMPSHIRE	9	165	....	4,200.32	409.18	2,262.27	12,210.57
NEW JERSEY	442	231,142	134,184	1,253,588.96	39,602.06	559,852.58	1,689,713.48
NEW YORK	1,058	231,311	547,149	2,847,332.68	38,210.73	1,784,346.74	3,750,555.40
NORTH CAROLINA	40	18,665	17,265	43,258.63	854.63	17,363.63	44,845.41
OHIO	601	283,854	220,101	1,463,537.48	48,332.61	520,998.92	1,986,615.47
OKLAHOMA	55	28,134	13,615	63,812.09	761.29	48,603.76	588,825.08
OREGON	107	51,917	41,238	184,119.30	883.86	144,913.73	158,491.82
PENNSYLVANIA	1,544	794,584	493,820	3,555,582.78	126,661.16	888,860.45	5,616,533.21
RHODE ISLAND	307	85,771	82,590	858,565.99	34,039.74	218,460.11	1,299,801.58
SOUTH CAROLINA	16	4,189	3,043	9,546.76	....	8,946.76	9,496.76
TENNESSEE	53	28,352	26,149	159,486.07	3,799.84	46,125.35	216,299.24
TEXAS	......	....	4,987	17,696.56	....	12,208.68	19,824.83
VERMONT	18	5,219	2,351	8,707.62	235.31	6,933.14	20,174.36
VIRGINIA	97	46,989	32,408	202,385.48	5,421.78	31,953.54	214,725.04
WASHINGTON	246	120,033	113,658	793,762.97	33,732.70	368,803.03	1,044,078.21
WEST VIRGINIA	121	35,582	29,195	167,450.23	4,083.60	52,986.21	266,693.00
WISCONSIN	331	238,895	189,581	572,412.96	14,072.11	171,216.99	785,951.53
TOTALS	11,371	4,319,741	3,403,746	$20,469,960.88	$622,994.38	$8,770,731.05	$31,984,052.63
TOTALS—UNITED STATES							
1925-1926	11,371	4,319,741	3,403,746	$20,469,960.88	$622,994.38	$8,770,731.05	$31,984,052.63
1924-1925	10,163	3,848,632	2,869,497	16,961,560.72	458,072.81	7,779,992.55	25,913,531.15
1923-1924	9,080	3,095,012	2,236,326	14,991,535.40	310,865.91	8,556,991.27	20,435,144.64
1922-1923	6,868	3,061,053	1,907,851	10,631,838.69	184,645.27	....	11,807,085.59
1921-1922	4,785	2,241,706	1,295,607	5,775,122.32	....	....	6,479,286.99
1920-1921	3,316	1,829,475	802,906	4,158,050.15	....	....	5,185,280.93
1919-1920	2,736	1,015,653	462,651	2,800,301.18	....	....	4,200,872.32

The Condition of Business

Business Profits for 1926 Will Set New High Records, as 65 Per Cent of 250 Corporations Show Larger Earnings Than Last Year. Some Industries Do Not Fare As Well. September Brings Expected Expansion in Trade. Money Rates Work Higher.

WITH reports of profits from some 250 leading corporations available showing their earnings for the first half of 1926, it is clearly indicated that the business profits of the present year will set a new high record. The aggregate earnings of this large group are $568,000,000, compared with $470,000,000 for 1925—a gain of 21 per cent. In discussing the condition of business in the August issue, mention was made of a tabulation of the first 100 industrial corporations' reports published during July as compared with the corresponding period last year. The additional statements show substantially the same results, with 65 per cent running ahead of last year and only 35 per cent falling behind.

This evidence of prosperity is most impressive, particularly in view of the misgivings that were felt in many quarters a few months ago as to the current year's business. Many believed the high records of production and distribution last year would not be duplicated for a long time—that 1925 crowned the remarkable first quarter century of industrial progress, but also marked the beginning of a downward swing in the business cycle that was already overdue. The sharp decline in the stock market last spring seemed to confirm the bearish view, but commerce and industry forged on and will without doubt attain new records for the full year both as to volume and earnings.

What Reports Reveal

BECAUSE of the widespread interest on the part of bankers and the public generally in the course of business as measured by earnings, and there is no single measure that is more significant, the following brief analysis of the results shown by the interim statements issued to date has been prepared for the leading industries, together with some comment as to the interpretation of the figures and the outlook for the remainder of the year. Certain lines, such as meat packing, are accustomed to publish only a year-end report and therefore cannot be included in this review.

It should be kept in mind that these reports represent the larger and more successful companies in each field, most of which were founded many years ago, and slowly grew from small size to large capitalization, which have an experienced organization and a product firmly established in the trade, whose stocks and bonds are widely held by investors and traded in on the exchanges.

A much larger number of the smaller corporations, partnerships and individual proprietors do not issue financial statements to the public, and it is well known that many of them have not prospered in equal measure, as an examination into the statistics of the U. S. Revenue Bureau for past years will show. Furthermore, the tabulation covers profits, not losses, and the companies that habitually run into deficits are not included, which facts should temper any excessive enthusiasm regarding the figures. Perhaps it is no more than normal that 65 per cent of the leading companies should show each year a gain over the one preceding. There is no question, however, but that the way of progress and prosperity is through larger business units, and there appears to be no turning backward from this tendency.

Following is the summary for the leading industries, arranged alphabetically:

Automobiles

The twenty-five leading manufacturers of passenger cars, trucks, parts and accessories showed earnings of $143,600,000 for the first half of 1926 compared with $111,600,000 for the corresponding period in 1925, a gain of 28.6 per cent. But a study of the list shows that all did not share the same proportion of gain, fifteen of the companies showing increases, but ten reporting decreases as compared with last year. General Motors Corporation profits increased from $44,460,000 to $82,772,000, while the total earnings of the other twenty-four companies showed an actual decrease of 6.7 per cent. It is thus apparent that in the motor industry the sensational gains of certain companies have been partly at the expense of their competitors. A good fall business is looked for and the outlook for the full year continues satisfactory for the stronger companies.

Cement, Glass, Etc.

The sustained building boom has meant good profits for those concerns supplying cement, brick, tile, stone, lime and glass, and the limited number of companies that have published half-yearly statements show unusual stability and a gain of approximately 5 per cent over last year. The substantial drop in new construction in New York and other large cities may signify a general decline from the super-activity of recent years, which will naturally affect producers of these building materials, including also heating and plumbing supplies, hardware, lumber and paints, although the completion of work now in the course of construction will require many months and should hold material prices firm.

Chemicals

The companies dealing in chemicals, dyes, drugs, fertilizers, etc., show almost uniformly a continued recovery from the depression of past years. Excluding E. I. du Pont de Nemours & Co., whose large size combined with its one-third interest in the common stock of General Motors Corporation makes it overshadow the list, the other twelve companies show a gain of 21.4 per cent. Demand for industrial chemicals has been active all summer, and with the coming of the fall season prices may very likely firm up somewhat. A recent feature of the market has been a heavy demand for calcium arsenate for combating the cotton boll weevil, and while the cotton harvest will be smaller and at lower prices than last year, the growers should be in a position to finance ample fertilizer requirements.

Coal

In the coal industry very few interim reports have been published and they show no improvement, indicating that 1926 will be another year of meager profits. This despite the high production in the bituminous fields and the record exports because of the British coal strike. The anthracite branch of the industry is doing no better, and the strike in this country last fall, instead of causing an increased demand afterward to make up for the curtailment, appears to have had the effect of turning many of its customers to the cheaper soft coal and to substitutes, so that it looks as if the five months' struggle will be paid for by miners and operators alike for a long time. The coal industry has too many mines. While the President's Oil Conservation Board predicts a shortage in petroleum in six years, it is of interest to note that the government geologists estimate that our coal supply would last 3500 years if mined at the highest rate so far attained, which was in 1918.

Copper

Prices of copper, as well as lead and zinc, are still below the general price level, and the dozen semi-annual reports available indicate that profits will be approximately the same as last year. This issue contains a special article dealing with the non-ferrous metals, which discusses the outlook in detail.

Electrical Equipment

Steady buying of electrical equipment is reported from all sections of the country, and while a seasonal slackening in business will probably be experienced during the fourth quarter, present indications point to an aggregate volume of sales somewhat ahead of 1925. Industrial plants are good buyers of equipment, as are also the public utilities, railroads and exporters. The radio and electrical refrigeration branches of the industry particularly show substantial gains

in profits and are due to have a very successful year.

Food Products

Ten leading concerns in the food line show a gain of 21.8 per cent in aggregate earnings, and all but one are ahead of last year. These include flour milling, bakery, cereals, ice cream, candy, soft drinks and preserving, and the year will doubtless be another successful one for this line. The numerous mergers in the baking industry have had the effect of stabilizing conditions, and cheaper flour prices will widen their margin of profit.

Iron and Steel

The fourteen leaders in the steel industry show aggregate earnings for the first half of 1926 of $84,900,000 compared with $67,500,000 for the corresponding period of 1925, a gain of 25.8 per cent. Even without the remarkable gain of $10,629,000 made by United States Steel Corporation, the other companies' showing is very favorable and the industry seems destined to make 1926 a new record year both as to production and earnings. The summer let-down was much less this year than is customary and operations at the end of September are at 80 to 85 per cent of capacity. Five companies of the group showed smaller earnings than last year, but these were all the smaller concerns or else were explained by special circumstances.

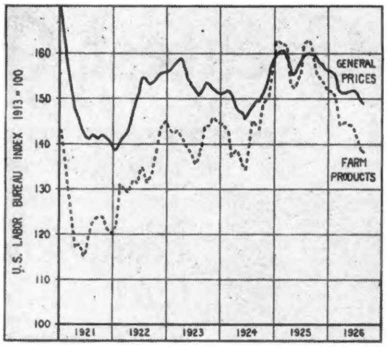
Leather and Shoes

Five companies engaged in leather tanning and shoe manufacturing show aggregate earnings of 28.8 per cent below last year, and the leading factors in heavy leather and calfskin both showed actual deficits contrasted with profits last year. The leather business has had a hard row to hoe ever since the war and although a large excess plant capacity has been scrapped at heavy losses, and a continued effort made to work down inventories to normal, it seems difficult to operate at a profit.

One hazardous element is the fluctuations in prices of the raw material—hides—which are not produced in accordance with the needs of the tanning industry but as a by-product of meat packing. Another is the curtailed demand from shoe factories due to the prevalence of low shoes for both men and women, requiring less leather than did high shoes; also the absence of seasonal buying at Easter and in the fall, and the saving of shoe leather by riding in automobiles instead of walking, and using rubber and other substitutes for heels and soles. A peculiar situation has taken place in heavy leather, which declined during the summer from forty-six cents per pound to forty-one cents, at the same time that heavy hides went up from eleven and one-half cents to fifteen cents. Earnings for the full year will be unsatisfactory.

Machinery

Net profits of $24,500,000, representing a gain of 14 per cent, are shown in the aggregate of twenty-four leading manufacturers of machinery, tools, farm implements, typewriters, cash registers, hardware, oil well supplies, sewing machines, washing machines, vacuum cleaners, firearms, etc. The gains are well distributed down the list with very few decreases shown, and unless there occurs in the final quarter some unexpected slump in business the 1926 totals



The course of general commodity prices, compared with farm products (showing 1921-1926)

for this line should average at least 10 per cent above last year and be the best ever enjoyed.

Petroleum

A gain of 4.7 per cent is shown by twenty-two oil companies that the first half of this year had combined earnings of $82,200,000. While this may seem less than the increases occurring in some other groups it should be realized, first, that 1925 was the best year in their history, and second that crude oil and gasoline prices have moved up considerably this summer from what they were the early part of the year. Consumption and exports are running at record levels, about 16 per cent above last year, but the increasing crude petroleum production will doubtless result in large stocks having to be carried over again this winter. With this last fact as a qualification, the long range outlook for the industry is certainly bullish.

Railroad Equipment

A gain of approximately 50 per cent is shown in this year's earnings of eight railroad equipment companies. Production of freight cars, passenger cars and locomotives has to date run well ahead of 1925 and even though there should be a falling off in new business during the closing months of the year, a large back-log of unfilled orders has been built up. Repairing and parts business has been active throughout the year due to the record tonnage being handled by the railroads and the representative companies will certainly exhibit favorable reports in contrast to last year, which was below normal.

Rubber

Practically all the manufacturers of tires, footwear, clothing, hose and mechanical rubber goods have been hit by the slump in the price of crude rubber, which a year ago got up to $1.23 per pound and is now down around forty cents. The 1926 semi-annual statements of six of the large companies have combined earnings of $12,300,000 as against $21,500,000 last year, a drop of 43 per cent. Sales during summer and fall have been very heavy and most authorities in the trade look for the second half of the year to show up much better than did the first, although an end-of-the-year adjustment for depreciation of inventory values will be required for any high cost rubber that was not worked off, and against which no reserve from surplus or earnings was previously set up. The outlook for 1927, they say, is very favorable.

Sugar

No estimates regarding the sugar companies can be given based on interim reports for the reason that none are published except after the fiscal years, which usually end from June to September for the Cuban producers and February-March-April or else December 31 for the American beet companies. A number of these annual reports, however, that have appeared during recent months show the disastrous effect of the slump in prices last year due to overproduction, and the reduction or passing of dividends is the order of the day.

It is expected that the reports to be issued in the near future will all show substantial deficits or negligible earnings at best, the least hard hit being the Porto Rican producers who are not subject to the tariff, but perhaps the present bad situation is like the darkness that comes before dawn. Prices of both raws and refined have been gradually working upward again and are now the highest of the year, while the curtailment in last year's and the coming crop in Cuba will cut down available supplies. Some of the European countries will have to import considerable this year.

Textiles

In the textile industry the situation is mixed. The cotton mills so far reporting show a substantial decline from last year, but mill operations have been increasing recently and with another large crop at lower prices the outlook is now said to be the most favorable for several years. This can hardly be reflected in the 1926 statements. The silk manufacturers, particularly hosiery, all show moderate increases and have apparently absorbed in operating costs the decline in prices of raw silk last spring.

Reports of improvement in the woolen industry still persist and fall showings have been well received. Rayon production will be 30 per cent larger than last year and this material is becoming increasingly popular as a mixture with other fabrics.

Tobacco

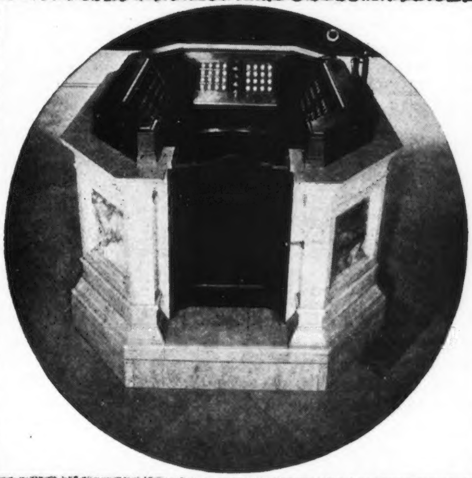
The average gain of 11 per cent is shown by the tobacco companies, including manufacturers of cigarettes, cigars, smoking, etc., also the United and Schulte retail stores. Production of cigarettes in August was 8,068,005,450, the highest monthly output in history.

September Brings Expansion

WHENEVER we enter into the final quarter of a year our discussions regarding the condition of business naturally turn to a review of the records that have already been definitely established and an inquiry as to the probable results that the full period will show. This year the volume of production, trade and profits has been exceptional, even as compared with 1925.

Speaking in general terms, the past month has brought the expected fall expansion in trade based on a good harvest of agricultural crops and full employment throughout industry. One of the best indexes of the distribution of goods is railroad freight car loadings. The accompanying diagram il-

(*Continued on page* 249)



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New Class of Paper for Bank Loans

A NEW class of paper—the Adjusted Service Certificates issued by the United States government to the veterans of the World War—will be eligible for bank loans after the first of 1927. The estimated amount of loan value that these certificates will have during that year will be $262,538,344, according to the figures supplied the AMERICAN BANKERS ASSOCIATION JOURNAL by General Frank T. Hines, Director of the United States Veterans Bureau.

The loan value increases year by year until the certificates mature. For 1928, the loan value is estimated at $370,910,606; for 1929 it amounts to $482,048,654, and for 1930 it increases to more than a half-billion dollars, or $590,893,686 to be exact.

While it is not to be assumed that all of the former soldiers, who are given these soldier bonus certificates, will seek to borrow on them, all of the certificates have a loan value each year until they mature. Just how important a class of new loans the paper will bring to the banks may be indicated by the fact that the value is approximately eight tenths of one per cent of the total amount of loans and discounts of all American banks and this percentage promises to grow year by year.

WHILE General Hines states that the definite plans for that part of the law which provides for the redemption by the Veterans Bureau of the loans made by the banks on the security of these certificates have not yet been completed, he announces that "it will be the policy to pay all loans made and submitted by banks to the Veterans Bureau in accordance with the provisions of the law."

The law in cases where the veteran borrows on the certificate and later does not pay the note at its maturity, makes it discretionary with the Director of the Veterans Bureau as to whether or not he would pay the note with interest in full when the bank, six months after the loan is made, tenders it for redemption. The statute provided that the director might pay to the bank the note with interest in full but it did not require him to do so. However, the statement by General Hines makes it clear what policy he will pursue in handling this phase of the soldiers' bonus act.

A LARGE proportion of certificates issued bears an effective date of Jan. 1, 1925. The first loan value on these certificates, which will become available Jan. 1, 1927, is estimated by the Veterans Bureau to be $215,668,000.

The following table shows the ratio of enlistments from each state to the total enlistments during the World War and the application of this ratio to the loan value available Jan. 1, 1927:

State of residence at time of enlistment	Ratio of enlistments to total	Apportioned loan value available Jan. 1, 1927
Alabama	.018244	$3,934,658
Alaska	.000499	107,619
Arizona	.002808	605,597
Arkansas	.015084	3,253,146
California	.032520	7,013,543
Colorado	.009404	2,028,148
Connecticut	.014083	3,037,261
Delaware	.001969	424,652
District of Columbia	.005217	1,125,143
Florida	.008879	1,914,922
Georgia	.021575	$4,653,050
Idaho	.004948	1,067,128
Illinois	.067217	14,496,597
Indiana	.027428	5,915,359
Iowa	.025145	5,422,987
Kansas	.016526	3,564,140
Kentucky	.019273	4,156,581
Louisiana	.016967	3,659,249
Maine	.006693	1,443,470
Maryland	.012980	2,799,379
Massachusetts	.040598	8,755,715
Michigan	.035291	7,611,161
Minnesota	.025886	5,582,798
Mississippi	.013593	2,931,583
Missouri	.034361	7,410,589
Montana	.009246	1,994,072
Nebraska	.012445	2,683,996
Nevada	.001254	270,448
New Hampshire	.003863	833,128
New Jersey	.029112	6,278,545
New Mexico	.003183	686,473
New York	.103670	22,358,366
North Carolina	.018507	3,991,379
North Dakota	.006308	1,360,438
Ohio	.051122	11,025,411
Oklahoma	.019962	4,305,177
Oregon	.008747	1,886,453
Pennsylvania	077866	16,793,253
Rhode Island	.005556	1,198,255
South Carolina	.013589	2,930,721
South Dakota	.007276	1,569,205
Tennessee	.019182	4,136,955
Texas	.041609	8,973,756
Utah	.004738	1,021,838
Vermont	.002504	540,034
Virginia	.019626	4,232,712
Washington	.013387	2,887,156
West Virginia	.013670	2,948,190
Wisconsin	.025653	5,532,547
Wyoming	.002773	598,049
Guam	.000055	11,862
Hawaii	.001376	296,760
Philippine Islands	.001372	295,897
Porto Rico	.003878	836,363
Samoa	.000464	100,070
Virgin Islands	.000014	3,019
No Residence	.000805	173,613
Total	1.000000	$215,668,616

No bank can charge a rate of interest that is more than 2 per cent above the rate charged, at the date of the loan, for the discount of ninety-day commercial paper by the Federal Reserve Bank in the district where the bank is located.

Offered $50,000,000 Loan to Belgium

M. ALFRED LOEWENSTEIN, a Belgium banker and sportsman, figured largely in the news recently when he offered to lend $50,000,000 without interest to Belgium. However, there were certain conditions that accompanied the offer and Belgium did not avail herself of the unusual tender.

Condition of Business

(*Continued from page* 246)

lustrates how, ever since the first of March, shipments have run well ahead of last year and in the week ended September 18 a total of 1,187,011 cars were loaded, the highest number for one week in the history of American railroading. The gains over last year are especially pronounced in merchandise and miscellaneous freight, but occur also in coal and coke, ore, lumber, grain and livestock.

Declining Commodity Prices

THAT the high rate of production and consumption of commodities should continue while general prices work to lower levels speaks well for the long-term business prospect. In looking back over the past business cycles in this country we find that a period of expansion was invariably accompanied by rising prices, for they provide a basis of expansion and prosperity, by stimulating the production of goods. Higher prices mean easier profits, which in turn allow increased wages, and the process calls into use more bank credit and currency for its financing.

In the desire to secure goods the merchants and wholesalers place orders for more than usual, knowing that they will probably not be able to secure the full quantity ordered, or if they should, that the surplus over their own requirements can be later sold at a profit. Then we have the "vicious circle," which is by no means a new story, with wages raised to catch up with prices and prices increased to meet the new wages. When the level can be driven no higher, due to the relations between different groups of producers and consumers being thrown out of balance, speculative stocks which have been accumulated are thrown back on the market and the serious disruption of the business organization takes place, forcing a period of depression or marking time until the broken purchasing power of the public can absorb the surplus stocks.

The course of general prices for the last five years is shown in another diagram, using the index of the United States Bureau of Labor compiled from over 400 commodities in wholesale markets. The group index for farm products is also shown.

It will be observed that the discrepancy between general and agricultural prices still exists; it has been the chief complaint in the "farmers' problem" for several years. While the average of grain, livestock, poultry and other farm products is 138 as compared with a 1913 base of 100, the articles he buys stand at 149, or approximately 8 per cent higher. However, the prosperity of the farmers in many sections this fall disproves any fear that agriculture generally is in a depressed state because of this 8 per cent discrepancy. The old idea, that the farmers' only salvation was to force the level of farm products up to meet the general level, using if necessary government price-fixing or purchase of surplus to dump in foreign markets, appears to be giving way to the idea of agriculture increasing its profits by the introduction of more modern methods and machinery, the same as has industry.

Pig iron is selling at only 132 per cent of its 1913 average, copper at 92, leather at 91, rubber at 47. The Ford automobile (touring car) that cost the farmer $550, f.o.b. Detroit, in 1913, can be secured now for $380, including self-starter and other improvements added in the meantime.

Money and Securities Markets

THE past month witnessed no unusual happenings in the money market, the main event being the offering of $350,000,000 Treasury Certificates of Indebtedness bearing 3½ per cent, which were largely oversubscribed and the quarterly fiscal operations of the government, amounting to over $1,100,000,000 took place without any disturbance to rates, which are continuing to work higher.

The stock market experienced a sharp break the early part of September which was ascribed to its weakened technical condition resulting from the prolonged rise, also the fact that many securities had been worked up by means of pool operation and outside speculative interest to levels that rather overdiscounted the profits expected this year, and for some time to come. Since the break, prices have recovered somewhat, but it must be admitted that the market at its present high level is in a sensitive state, subject to fits and starts, as from the constant rumors of higher money rates.

The bond market during September was normally active and was called upon to absorb a considerably larger number of new offerings than in August, which appeared to take place easily and without any appreciable weakening in quotations. Among the more important issues of the month were the following:

$378,669,500	U. S. Treasury Certificates of Indebtedness, 3½s, due June 15, 1927, priced at par to yield 3.50 per cent.
35,000,000	Illinois Central RR. Co., 4¾s, due 1966, price 96½, to yield 4.95 per cent.
28,745,000	State of New York, serial 4s, due 1927-1966, prices to yield 3.50-3.80 per cent.
24,000,000	Siemens & Halske, Germany, S. F. deb. 6½s, due 1951, price 99, to yield 6.55 per cent.
20,000,000	Canadian Pacific Ry. Co., col. tr. 4½s, due 1946, price 96½, to yield 4.77 per cent.
20,000,000	Free State of Prussia, Germany, ext. S. F. 6½s, due 1951, price 95, to yield 6.92 per cent.
18,000,000	Canada Steamship Lines, Ltd., 1st & gen. mtge. 6s A, due 1941, price 97, to yield 6.30 per cent.
15,000,000	Republic of Finland, ext. S. F. 6½s, due 1956, price 94, to yield 6.98 per cent.
13,000,000	Pennsylvania-Dixie Cement Corp., 1st 6s, due 1941, price 99½, to yield 6.05 per cent.
13,000,000	Union Tank Car Co., eq. tr. cfs. 4½s, due 1927-1936, prices to yield 4.70 per cent.
10,000,000	Consolidated Cigar Corp., S. F. 6 per cent notes, due 1936, price 99½, to yield 6.02 per cent.
10,000,000	Allegheny County, Penna., 4½s, due 1928-1956, prices to yield 4.00-4.10 per cent.
7,500,000	R. H. Macy & Co., serial deb. 5¼s, due 1927-1936, prices to yield 4.75-5.20 per cent.
7,500,000	State of Missouri, 4¼s, due 1943-1946, price to yield 4.15 per cent.
6,000,000	Oklahoma Natural Gas Corp., conv. deb. 6½s, due 1941, price 99, to yield 6.60 per cent.
5,000,000	East Bay Utility District, California, 5s, due 1935-1974, prices to yield 4.55-4.65 per cent.
5,000,000	Ste. Anne Paper Co., Ltd., 1st S. F. 6½s A, due 1946, price 100, to yield 6.50 per cent.
5,000,000	Federal Water Service Corp., conv. deb. 6s A, due 1996, price 96, to yield 6.25 per cent.
5,000,000	Stanley-Crandall Co. of Washington, 1st gtd. S. F. 6s, due 1946, price 100, to yield 6 per cent.

Federal Warehouse

(Continued from page 238)

erally licensed warehouses at any one time does not suggest the total volume of cotton that passes through the licensed warehouse in one season. A warehouse with a 25,000 bale capacity often handles 50,000 or 75,000 bales of cotton in a year. One indication of the volume of cotton passing through Federally licensed warehouses is found in the fact that last year receipts to handle more than 5,000,000 bales of cotton were printed in accordance with the rules under the warehouse act, and this does not include the number of receipts that were held over from the past season.

In addition to the credit instrument which the grower and the growers' organizations have received through these warehouse receipts, they have benefited in another way, less obvious but probably as important. The framers of the warehouse act realized that too many of the farmers were careless in their production, harvesting and storing methods and careless in their methods of marketing. They realized that few of them knew anything about grades, hence they knew little about the real value of their individual products.

The framers of this law believed that if provision were made for determining the correct weight or quantity of the product and for establishing its grade and condition, this service would not only result in giving to the farmer a warehouse receipt that gives a true statement as to the value of the product and therefore gives the banker the information he needs to make an intelligent and fair loan, but they believed that this demand for a grade statement would gradually interest the farmer in grades, in the production of a product of good grade and in handling the product in a way that would maintain that grade. Moreover, this knowledge of the grade of his product would enable the farmer to use market quotations and thus determine a fair sale price for his product.

Amsterdam

(Continued from page 230)

considering the size of the country. Its investments in American securities today is very large. Its holding of Russian bonds at the time of the Russian revolution has been placed at the equivalent of $600,000,000. But that is a sore subject. Its holdings of German and Austrian securities also were very large and that is another sore subject. Let it be said that if there is one country in Europe which knows the game of international investment and finance that country is Holland of the Hollanders.

These are some of the reasons why Holland, in its historical background, occupies a position of such peculiar significance in the financial circles of Europe, but this position in financial affairs fits in with the political position of the country.

Of the neutral nations during the World War Holland probably suffered more than any other. From its position it was compelled to export unduly during the entire struggle—at much profit, doubtless, but also at much sacrifice. This, however, and in

spite of the immense losses in Russia and in the central powers, led to an immense increase in its investments abroad and laid the foundation for that strength in foreign money markets which made it possible to keep the guilder within measurable distance of par during the period of readjustment. In the meanwhile its political position has been orientated. As the wealthiest and most powerful of the neutral nations in Europe, it has used its position to advance the interests of internationalism in the best sense and in so doing has strengthened its international financial influence.

In present day finances it is coming more and more to the position of an international clearing house. Partly as a result of its trading position with Germany and partly because of its neutral position, it has been the chief, perhaps because the nearest, broker between Germany and the rest of the world since the war. It was one of Germany's chief depositories during the collapse of the mark and still occupies a depository position between Germany and its former antagonists. Holland's chief mission in later day trade has been as the entrepôt and transfer point for imports into south and west Germany and for exports from much of central Europe to the rest of the world. With this interdependence between Holland and Germany on the one side and other countries on the other, there has come definite knowledge of financial, industrial and economic conditions abroad which greatly strengthens the Dutch position.

Recent developments in Dutch financial affairs have led to important changes in the banking methods of the country which until quite recently reflected the earliest traditions of the Dutch system.

In the earliest days of Dutch investments abroad, the mass of the people were accustomed to place their savings through and upon the advice of brokers in such securities known as *commissionaires in effecten*, or stock commissioners or brokers. These brokers ordinarily received deposits against the purchase of securities and in time came to be in effect small bankers. In due course they came to accept and pay money for accounts of third parties and in this function they were known as *cashiers*.

In Amsterdam these functions usually were separated but in the other cities of Holland they were usually combined. In either case these two classes of brokers between them have held, until very recent times, a large share of the available cash of the country which otherwise would have been deposited with banks, the result being that the institutions recognized as banks in the ordinary acceptance of the term, have had far less deposits than their real strength and actual business would have indicated.

In the great expansion of Dutch commerce and industry immediately preceding the war, however, transactions became so large these brokers were compelled either to qualify as bankers or to confine themselves to a stock broking business. In Holland there has also existed a system of borrowing money known as the "prolongation" system under which available money was borrowed from the holder on the Exchange for a month at the current rate on the day on which the contract was made and the contract was renewed from month to month so long as neither party gave notice of withdrawal.

These loans were made upon the pledge of marketable securities through stock brokers, who deal with the borrowers only on the Exchange and in accordance with Exchange rules but it is evident that this system also replaced banks in their ordinary function and deprived them of business which in other countries ordinarily would have flowed to them. During the war when the Exchange was closed for over seven months this system fell into disfavor.

Both of these changes have led to an extraordinary development in more modern and orthodox banking. The cashier and prolongation concerns either went out of business or combined to form large modern banks. Smaller banks combined into larger concerns while the capital stock of practically all of the larger banks was found to be too small for present day needs and has expanded enormously. Even before these important changes Dutch banks were able to care for not only the great import and export trade of Holland but had a large share in financing German trade in the Rhineland and trade in other parts of central Europe.

With these developments they are in such a position that they can readily handle that great part in reparation and international financial affairs which the position of their country in both trade and finance will inevitably place upon them.

The Plan

(*Continued from page* 220)

The thing that is clearly in the chairman's mind is set forth in a recent letter addressed by him to members of the committee, in which he said:

"Reduced taxes on individual income and surtax have fully justified the assurance that they would produce a large revenue. The Secretary of the Treasury has confirmed this estimate by announcing recently his intention to retire $333,000,000 in Treasury notes out of current funds. * * * In the light of these facts we venture to urge the advisability of directing the attention of Congress, through its joint tax committee, to the practical possibility of further tax relief. The December session could well grant immediate corporate relief.

"The corporation as a form of business suffers discrimination in rate and administration in comparison with the partnership and the individual. The corporate rate, unchanged since the War, was increased by the Revenue Act of 1926 to a maximum of 13½ per cent for 1927. This upon the theory that the abolition of the capital stock tax would cause a loss of $90,000,000 a year in revenue.

"It must be evident from the prospective minimum treasury surplus in sight that not only no increase in rate is necessary to provide revenue but a reasonable application of the surplus in being, which in all likelihood will continue to grow, would justify a corporate rate for the calender year 1926 or not more than 10 per cent, effective on 1926 business.

"It must be remembered that the right to tax is the right to take and retain only that which is necessary for the support of the government. The relief of the citizens from an undue tax burden is not a privilege but a right. A continuing surplus of revenue justifies a steady demand for relief until revenue is reduced to the reasonable requirements of government."

The Increasing Burden

SUCH is the program which now appears to be in the making. The corporations have stood aside from tax reduction benefits since 1921 and have watched the various forms of tax reduction lighten the load of individuals. During the past five years the corporation tax has resulted in increasing revenues to the Federal Treasury at a time when all other tax revenues were falling. Here is the record of payments on the net income of corporations for the various calendar years indicated:

1921	$701,575,432
1922	783,776,268
1923	937,106,798
1924	881,190,113
1925 (estimated).....	1,000,000,000

With the single exception of 1924, the record steps up like a ladder for five years. That exception indicates a quiet business year and not a decrease in the rate which was the same as for 1923 and 1925. On last year's great volume of business, it is estimated, corporations are paying nearly half as much again in taxes as they paid on 1921 profits.

And on this year's record-breaking business corporation taxes will undoubtedly mount to still higher figures. Corporation profits in 1923 were disclosed by the Bureau of Internal Revenue as $8,321,000,000. They were somewhat less in 1924, but swept much higher in 1925. In 1926, it is indicated, corporation profits will pass the $10,000,000,000 mark and may reach $12,000,000,000.

If so, taxes paid on 1926 profits by corporations will lie between $1,250,000,000 and $1,400,000,000, it is estimated—not far from 100 per cent increase over the 1921 impost.

On the other hand, individual tax rates have enjoyed two cuts since the revenue law of 1921 was passed.

Hence, it is maintained, the time has come

when the nation's 400,000 or more corporations are rightly entitled to their share of relief. There is yet to be determined the appropriateness of the time for advocating the change. Opinion is divided as to whether the campaign should be pressed on the next session of Congress or held over until December, 1927. But opinion is not divided, so far as this writer can learn, as to the justice and equity of having the lion's share of the next tax cut apply to corporations rather than to individuals.

There are many obstacles in the road that runs from hope to achievement in corporation taxland. One is public apathy. Another is political expediency. They are the chief barriers, but they are not insurmountable.

The public can be educated. It can be told in words that echo deep down in its pocketbook that in taxing the corporations heavily the government is taxing the cost of living and swelling it. It can be educated to the fact that corporations are the backbone of American industry and prosperity. It can have the lesson driven home in primer terms and thought if necessary, that the corporations of the country are doing $150,000,000,000 in business this year, and that any tax which levies a toll on that business comes home on pay day to roost with the consumer.

So much for public indifference. It can be made to Charleston if the music is right, and the music it knows best is the jingle of ready money in its own pocket.

Political expediency is an uglier and tougher opponent. Corporations cast no votes, and votes populate the House and Senate Chambers at Washington. However, the average Congressman and Senator is not as dumb as some of his critics would have him appear. He can tell the buttered side of his political bread when the lights go out. He is learning something about cause and effect even in finance and taxation. The task of proving to the legislative mind that corporation tax reduction would lower living costs and bring universal benefits has been smoothed by the recent class in surtax reduction, which learned its lesson well during the last session of Congress.

And there we are. The time, the place, and the girl are essential, and of those three, only the time is the undetermined quantity.

Europe Saving

(*Continued from page* 240)

banks had increased to 5,800,000,000 francs and the depositors had increased by 150,000 to 8,755,000. At the close of 1921 when exchange quoted the franc at $.02 in excess of what it was in 1920, savings deposits had increased over the previous year by more than 1,000,000,000 francs and the number of depositors had increased to 8,829,000. At the close of 1922, the amount of deposits had increased almost another 1,000,000,000 francs while the exchange value of the franc had decreased. In other words, the increase in exchange value of the franc during the year 1921 seemed to have no more effect on the amount of savings deposits than did the decrease during 1922. At the close of 1925 deposits were in excess of 9,750,000,000 francs and the number of depositors was 8,879,974, which is a greater number of reported depositors than in any previous year except 1922, when 43,026 more depositors were reported than at the close of 1925.

The growth in deposits in the French postal savings banks shows a situation similar to that in the private savings banks. At the close of 1914, when the exchange value of the franc was 19.4c., there were on deposit in the postal savings banks 1,798,363,000 francs and the number of depositors was 6,555,992. At the close of 1925, 3,937,000,000 francs stood to the credit of 7,454,653 depositors. The fact that the number of depositors in the private savings banks was greater by 220,000 at the close of 1925 than at the close of 1914 and that the number of depositors in the postal savings banks had increased 900,000 in the same period, would not seem to indicate any fear of instability of French money on the part of the French people.

Germans Hoped for Best

IN Germany the situation developed in a manner somewhat different from that of the other countries. At the close of 1913 there were in the German savings banks 19,772,000,000 marks to the account of 23,872,000 depositors. At this time the mark was at par of exchange. At the close of 1918 the value of the mark was quoted at \$.1215, the deposits had increased to 31,760,000,000 marks and the number of depositors to 32,768,000. At the close of the following year when the mark had declined to a value of \$.0205 the number of depositors had increased to 33,507,000 and the deposits to 36,614,000,000 marks.

Information as to the number of savings depositors during the years subsequent to 1919 when the mark declined rapidly in value is not available. However, records show that on June 30, 1922, when the mark had gone to \$.00264 there were on deposit in the savings banks 53,000,000,000 marks. This record seems to indicate that there was a persistent hope of the integral revalorisation of the mark in the minds of several million depositors.

The thrifty spirit of the German people, their belief in their country's future, despite the terrific losses in the final debacle of the mark, is nowhere displayed to better advantage than in their immediate resumption of depositing money in the savings banks, upon the initiation of Germany's new financial régime. At the close of September, 1925, deposits in the savings banks amounted to 1,375,000,000 reichsmarks which amount had increased by December 31 of last year to 1,632,000,000 reichsmarks. As of April 31, 1926, there were on deposit in the savings banks of Germany 2,155,000,000 reichsmarks. In this brief period the Germans have built up a volume of savings equal to about 11 per cent of their pre-war deposits.

In Belgium, the number of depositors in the general savings bank at the close of 1912 was 3,013,000 with deposits of 1,058,000,000 francs. By the close of 1920, the number of depositors had risen to 3,508,000 and the deposits to 1,506,000,000 francs. During this time the Belgian franc had declined from 19.3 cents (par) to \$.062. By the close of 1922 the depositors had increased to 3,858,000 and the deposits to 1,845,000,000 francs. At the close of 1923, by which time the franc had decreased in international exchange more than one-third from its value at the close of 1922, the number of depositors had increased to 3,911,000 and the deposits to 1,971,000,000 francs. By the close of 1925 the number of depositors had reached the high total of 4,148,000 and the deposits had advanced to 2571 million francs, with the exchange at \$.0375.

More understandable to American readers would be the translation of these figures into dollars. That, however, would not represent the proper picture of European savings for two reasons: one being that goods entering into local consumption have not necessarily had the rise in price which characterizes products entering into international trade; and second, that the rise in living costs figured on the gold basis has not manifested itself to the same degree in all the countries under discussion.

On Seas to Stay

(*Continued from page* 226)

In the sale of tonnage to parties not engaged in foreign transportation, the achievements have been equally gratifying. Of utmost significance has been the development of the wonderful intercoastal fleet, furnishing transportation via the Panama Canal between ports on the East, Gulf and West Coasts of the United States. Practically no service over this route existed after the close of the war, and to a major extent through the sale of Shipping Board tonnage there is now plying a fleet estimated at about 150 vessels of nearly 1,500,000 deadweight tons. This route enjoys the benefits of coastwise restrictions against foreign competition. The vast development of the western empire of the United States has been promoted and assisted through the cheap and certain transportation which the intercoastal fleet provides, and in turn there has been a movement of lumber and food products from the West to the East unparalleled in magnitude.

There has been also the establishment of numerous coastwise lines largely through the sale of the smaller vessels built by the Shipping Board. Various private lines are now operated between New England, New York, Philadelphia and the Delaware River, Baltimore, Hampton Roads, South Atlantic and Gulf ports and the West India Islands; also between the various ports on the Pacific Coast.

These smaller lines are most important units of our merchant marine, providing to a large extent for "feeder" services to the major points of foreign shipment. The gradual growth of these lines may be hoped

to provide for much of the work of replacement upon which the American shipyards will rely; in fact, accomplishments in this direction have already been noted in an encouraging degree by improved types of express coasting liners constructed and under construction, largely with the assistance of the Board's construction loan fund.

With a view to stimulating the adoption of the most modern marine improvements particularly with regard to propulsion, the Board has encouraged the sale of certain types of its ships at a substantially nominal price to buyers who will undertake to improve the ships by conversion through installation of Diesel engines or other necessary alterations. Eighteen vessels, totalling about 125,000 deadweight tons, have been sold to private companies and converted by them to motorships, thereby giving support to the Diesel engine manufacturing business in the United States and adding an equivalent number of the most improved types of ships to the merchant marine. For other alterations and improvements more than forty ships have been sold, totalling nearly 200,000 deadweight tons, thereby rendering operative vessels which might not otherwise ever have found commercial use.

Must Improve Fleets

THE competitive steamship trade may be likened to a horse race. We cannot enter a mule in a horse race with any hope of winning a prize, nor with certain types of our ships can we hope to secure the cargo which is most profitable upon the ocean. To continue the illustration, we have in the American stable a great many race horses. The "Leviathan" is a veritable "Man o' War," but we also have many mules which we are feeding. We must get rid of the mules and substitute the race horses.

To do this will cost a great deal of money, but the expense will not be comparable with the expense involved in continuing to use ten-knot coal-burning ships in competition with thirteen-knot ships propelled by oil-burning machinery. We are not the only nation using, so to speak, a mixed stable of horses and mules, but the foreign countries are rapidly scrapping the mules and substituting race horses, and this country must do the same.

The important tanker fleet of the United States was materially expanded by the sale of nearly all of those of this type owned by the Board, numbering about seventy and totalling more than 600,000 deadweight tons

The sale of the wooden fleet of 237 vessels for scrapping, and the disposal of uncompleted hulls, barges and similar odd equipment numbering about 200 additional units, has relieved the Board of this burden and has enabled its major problems to be more clearly defined. The sale for scrapping of about 220 steel vessels which were considered surplus to the needs of the merchant marine has further assisted.

Further Transfers Possible

TO what extent the Board will continue to transfer its shipping property to private capital for operation under the American flag cannot be prophesied.

Those liner services which are more difficult of successful development by reason of the highly competitive type of recently built foreign tonnage operating against them, might be rendered more attractive by placing in operation the steamers which the Board is converting to Diesel propulsion. The Board is pursuing all of these opportunities actively. Fourteen large vessels now in process of conversion to Diesel propulsion will be placed in operation on the highly competitive lines as soon as they are completed.

It must not be forgotten that many of the Board's vessels are now approaching ten years in age, or in general shipping practice one-half of their competitive usefulness. Replacement with equivalent or improved tonnage will become increasingly necessary. This latter consideration is most important with regard to the United States Lines, which operate the trans-Atlantic American passenger services. With but two modern-built vessels in this fleet in addition to the "Leviathan," it is the intention and expectation of the Board to develop very shortly whether private American capital can be attracted to this undertaking or what Government plans must be made to insure its continuance.

It appears quite possible that the vessels in the Board's fleet over and above those needed for the established services, numbering at this time less than 500, might in due course find buyers. Any material improvement in general shipping, coupled with the necessity of replacement and expansion, could be expected to absorb a very large proportion of such tonnage. Every possible means of encouragement is offered by the Board through liberal terms of payment to responsible parties.

Results Under

(*Continued from page* 208)

The savings depositor under neither the Oregon or California law is a preferred creditor of the bank assets as a whole. He does have a first and exclusive lien upon the assets of the savings department until paid 100 per cent. Any amount realized upon the assets of the savings department including the capital and surplus allocated to that department are used for the payment of savings depositors. Any balance after these claims are fully paid is turned over for payment of the commercial depositors and other claimants. The same is true of the commercial department. It is even conceivable, although very unlikely, that there would be a greater relative shrinkage in the assets of the savings department. In this case the commercial depositors would receive a larger dividend than the savings depositors.

It may be added that there does not appear to be any weakening of the position of the commercial depositors because of departmentalization. The dividends received by commercial depositors in the departmental banks of Oregon average quite as well as in those having no savings department. A comparison of the number of bank failures and the amount realized by depositors in California and Oregon banks with those in neighboring states supports the opinion that savings depositors do not receive added protection at the expense of other depositors.

While the departmental laws do not seek to make of the savings depositor a preferred creditor they do undertake to prevent his being made a deferred creditor. At present all savings banks or savings departments may require from thirty days to six months notice by a depositor of his intention to withdraw a part or all of his deposit. This right is seldom invoked even when a bank is in trouble since it would serve as a danger signal to all demand depositors. But in a number of cases notice has been required leaving the savings depositor helpless while the demand deposits were being drained away.

The foregoing arguments in favor of departmental banking have been from the standpoint of the savings depositor and the social gain that would accrue due to the promotion of thrift and greater social stability.

Features Favoring Bankers

TWO arguments are presented which are expected to win the support of the banker. In the first place reserve requirements are ordinarily lower for the savings department under a departmental law. For instance, Oregon requires banks to maintain reserves of 15 per cent of the total demand deposits and 10 per cent of time deposits in the commercial department. In the savings department, a reserve of 5 per cent only is required, one-half of which may be United States government bonds or balances with approved reserve agents.

The principal argument that is directed at the banker is that departmental banking will increase the volume of his deposits. In the West, California statistics are commonly cited in support of this contention. It is shown that the total deposits of state banks and trust companies in California have grown from $394,000,000 in 1909 to over $2,000,000,000 by the end of 1925. The savings deposits alone were $1,363,013,870 in September, 1925. The per capita savings deposits in all reporting banks of California were $386.23 in June, 1925, the highest of any state outside of thrifty old New England.

These statistics reflect a well-deserved feeling of confidence in the condition of the banks of the state. But on the other hand statistics of this kind cannot be treated uncritically. Allowance must be made for the large influx of retired farmers, business and professional men and other persons who have brought a vast amount of liquid capital into California in the past fifteen years. These favorable economic conditions cannot be ignored. Nevertheless there are strong reasons for believing that departmental banking has been an important contributing factor. The advertising value of the term savings is closely restricted for state banks to those conforming to the savings bank law. At least one national bank has included the words "national trust and savings bank" in its title presumably because of the popularity of the term "savings bank." Postal savings for the entire state of California are only $2,644,572, which is in striking contrast to certain other western states where the people have become somewhat "bank shy" due to heavy failure losses.

Many objections are raised against departmental banking—some trivial, others having real weight. The objections that appear to the writer to have most significance in blocking departmental banking legislation are: first, that departmentalization will divert money from local loans to outside investments, and second, that added cost and expense would be involved.

The country banker especially protests that he would be forced to invest in bonds and outside paper to the detriment of his own community. The extent to which the individual bank would need to change its investments depends upon its present policy and local conditions. Certain country bankers have assured the writer that they could departmentalize within thirty days without inconvenience.

Under the Oregon and California laws, the banks can loan on farm lands or local real estate. They can make secured loans to individuals and discount a limited amount of high grade commercial or agricultural paper where the maker can show at least a two to one current ratio. These restrictions do not seem onerous but nevertheless it represents a very real objection in the minds of the bankers.

A second very general objection raised against departmentalization is the added cost involved. The country banker especially feels that the result would be to materially reduce his profits. A large number of country banks do not find the savings department profitable under national or state laws which do not require separation of departments. If forced to departmentalize it is assumed that the earning power would be reduced since the yield on high grade bonds is less than the interest charged upon local loans. At the same time some added expense would come from maintaining separate departments.

Small Banks Hit

NEVERTHELESS the possibility exists of smaller banks dispensing with the separate savings department entirely if they find it burdensome or unprofitable. In California, departmental banking is almost universal. In Oregon, on the other hand, approximately 40 per cent of all state banks do not maintain savings departments. Most of those without savings departments do report time certificates of deposit, which may be taken in the commercial department. It should be added, however, that almost exactly the same proportion of national banks in Oregon according to the Comptroller's report, do not maintain separate savings departments although they may do so without segregation.

Texas has had only from thirty to forty state banks with segregated assets and restricted investments. These are practically all city banks.

Since California is the principal branch banking state and also the leader in departmental banking many persons regard the two as associated forms of banking development. Opponents of branch banking denounce departmental banking because they contend that it will inevitably lead to branch banking. California is the only one of the states providing for segregation of savings assets which has any considerable development of branch banking. Her sister state, Oregon, prohibits all forms of branch banking.

The only argument advanced to support the contention is that segregation limits funds available for local loans and thus favors the large branch bank which can shift its commercial funds where most needed. The writer sees no connection between departmental banking and branch banking except that both are practiced by California banks.

A very practical objection to departmentalization in some states during the post-war period has been the large amount of borrowed money.

If the local sentiment for departmental banking is strong, the bankers would do well to assist in securing the passage of such a law at a time when the readjustment can be most easily made and when a truly constructive law is possible. Otherwise it may be forced upon them under onerous conditions. Even worse, radical and unsound projects may be the alternative.

Segregation Is Sound

IN the opinion of the writer, separation of capital and assets between commercial and savings departments is sound in principle and has worked out successfully in practice. It is a natural outgrowth of the departmentalized type of banking institution and the rapid increase in savings deposits in

commercial banks. Since commercial and savings banking differ in certain important respects there is a fundamental reason for segregation.

The growing volume of time and savings accounts has placed a new obligation upon the commercial banker. He is today directing the investment of billions of dollars which have been looked upon as normally intended for meeting the long time needs of the community. Side by side with the growth in time deposits in the commercial banks has been a corresponding increase in the investments of the banks. On June 30, 1925, the national banks reported $5,730,444,000 of investments and $5,744,300,000 of time deposits. At the same time the state banks and trust companies including stock savings banks held $6,283,352,000 of bond investments and $7,837,395,000 of time deposits. Bankers are grasping the significance of the growing volume of time deposits and shaping their investment policy accordingly.

It is not urged that every one of the forty-eight states should immediately revise their banking codes to require departmentalization nor does the writer believe it wise to undertake to secure an amendment of the national banking law providing for departmentalization.

For three successive sessions Congress has been deadlocked on the McFadden bill, which contains many urgently needed reforms, because of certain controversial issues. No grounds for further differences of opinion should be added at this time. One section of the bill would extend the time of city mortgages from one year to five years. Farm mortgage loans may already be made by national banks for a five year term. Real estate mortgage loans are the premier investment of savings banks and insurance companies. The trend in the national banking law has been to emphasize the difference between time and demand deposits. Eventually departmental banking may be adopted for national banks.

What is urged is a careful study by the bankers themselves of the experience with departmental banking. Savings bank legislation is especially needed in the West and South. In those sections mutual savings banks are relatively undeveloped. The deposit guaranty experiment has generally ended disastrously. Heavy losses due to bank failures have been experienced and better legislation is being demanded.

The best way to get this legislation is to follow the example of Oregon of appointing a banking code commission made up of experienced forward-looking bankers; give the commission ample time to make an adequate study and to present the proposed code to bankers, lawyers, business men and the general public for criticism and constructive suggestion. It is not to be expected that every state would decide, as did Oregon, in favor of a law providing for complete departmental banking. But it is contended that no constructive study is complete unless it includes a careful analysis of the California and Oregon departmental laws and the experience under them.

Function of Banking

(*Continued from page* 201)

buying power through adding an excessive cost for credit to the actual cost of the goods. The extra charge for credit is not always excessive, but sometimes it runs as high as 30 per cent. The trend in manufacturing is toward lower prices, better goods, and the payment of higher wages—that is, higher real wages, for only productive wages may continue to be paid. If now these credit schemes come in between the consumer and the manufacturer, adding very materially to the price of goods, the market will be choked just as surely as though the manufacturer had raised prices. This long-term consumer credit is something new in the world and it will bear watching.

There is, to repeat, plenty of planning and work for all of us. Everything is in a stage of development. Banking undoubtedly for it is not yet fully in tune with progress. Perhaps none of us are.

Changing Standard

(*Continued from page 218*)

The New England states afford a striking contrast. Only one new small bank has been given a state charter in Rhode Island during the last ten years. In Vermont there has not been an application in the last three years. In Maine no new banks or trust companies have been asked for since 1924, but a few branch banks have been authorized. In Massachusetts the Commissioner of Banks points out there is one trust company to each 44,087 people and one national bank to each 26,736 people—or one commercial bank to each 16,643 people. There is one mutual savings bank to each 21,144 people.

Striking an average for the whole country, there is one bank to every 4144 people.

Odds Against Group Seeking Bank Charter

It is not possible to state accurately what the odds are against those who seek to start a new bank, for the reason that, unless there is a reasonable chance for a charter being granted, the application is not formally tendered. As a rule, the organizer discusses the matter with the commissioner or the banking board before taking this step, and if the preliminary conferences clearly indicate the authorities will not entertain the proposition, it is not pressed. From the data that are available, it appears that only about one formal application in every three is granted. In California, where the requests have been numerous for several years, only eight out of sixty formal applications were acted on favorably during 1925, while only four out of twenty-seven petitions were granted during the first half of this year. In New York, where the Bank Commissioner recently said there seemed to be "a mania" to get in the banking business, not more than one in ten applications of those tentatively made is sanctioned.

Perhaps no better statement of the general attitude of the banking authorities could be expressed than that stated by the Superintendent of Banks in California:

"Under the law of California a charter is supposed to be granted only to serve the public convenience and advantage," he states. "In the opinion of the department, it is essential that an adequate showing of the need of additional banking facilities be made before a permit will issue. It is also our opinion that the bank must have a reasonable prospect of success, since we do not believe it for the public advantage to establish banks which will prove weak. That is to say, the general question of public convenience and advantage cannot be interpreted merely in accordance with the possible convenience of a few depositors, but must embrace the larger question of the general banking situation and the establishment of a bank which has little prospect of success can only tend to affect the general situation adversely. The preliminary examination should involve not only the question of whether additional banking facilities are necessary, but whether the proposed set-up is satisfactory with respect to personnel and financial responsibility.

"Unquestionably a policy predicated upon a sound conception of the broader meaning of public convenience and advantage, and involving careful investigation of all applications, should materially reduce the number of bank failures."

Over-Doing Skyscraper

(*Continued from page 222*)

assured for a period of years to come. The building should also be efficiently planned so as to return the largest net rental revenue per square foot of space.

In developing property thought must be given to the possible business district shifting. In that connection, I am reminded of the neighborhood of Canal Street in New York. For many years banks lent money in that vicinity, as they felt their money was safe there. However, over night the mercantile district shifted to Fourth and lower Fifth Avenues. The banks found that in some cases their mortgages were for more than 100 per cent of the value of the property. The lesson to be learned from that is that watching the probable shifting of the business district is of more vital significance to the investor, or property owner, than all the renting and operating problems combined.

A building begins to be obsolete from the day its doors are opened. The progress of modern times goes on. Some bond houses claim the owners and managers are trying to protect the old buildings.

Possibly they are, but not entirely. I have been told that in some cities, if all the old buildings were emptied entirely of their tenants, they would not fill the new structures that have been erected.

It is interesting to note that in the prospectuses issued by some bond houses no allowance is made for these two important factors—obsolescence and depreciation. It has also been remarkable to me how few owners and managers are allowing for obsolescence and depreciation in the determination of income, for no matter how much the appreciation, it does not offset depreciation.

In analyzing some of these issues on old buildings we find that the bond issues are from fifteen to twenty-five years, though in each case the buildings are now all twenty years and older. In fact, two buildings that have come to my attention were built thirty years ago.

The appraisals are made up as follows: The appraisal of the land is made by a real estate appraiser and the appraisal of the building by a firm of architects. I do not know what is meant by the architects' appraisal of the building. I presume they mean the replacement value of so much brick, stone, etc. The building certainly has no such salvage value as the architects have quoted.

The gross earnings are given for the year previous, regardless of the fact that at present these buildings are enjoying high rents, due to old leases made at war prices that have not expired and due to the fact that some of the newer buildings have not begun to have their effect. In my opinion, the only fair method of determining the profitable earnings of these properties is to estimate what the probable rental income and expenses will be in the future rather than in the past, taking into consideration the obsolescence of the building and the competition of the new and more modern structures.

How do the houses of issue reconcile their statements when they tell us that the old buildings must expect to be replaced by the newer and more modern structures, that tenants will move and pay more for up-to-date space, then turn about and write an issue for fifteen to twenty-five years on a building that has about outlived its economic value on an appraisal not based on probable earnings?

Excessive Appraisals Made

EXCESSIVE appraising is possibly the most dangerous of all factors in dealing with over-production. Note the different kinds of appraisals that have been shown on the propaganda issued in the sale of some real estate bonds. For example, I have noticed that the appraised value of the project is being shown as the estimated cost of the building plus the appraised value of the land, the total being the appraised value of the property. The land is appraised by a real estate appraiser and the estimated building cost by an architect. This, to my mind, is ridiculous, as no building is worth more than it can possibly earn over a term of years, regardless of whether its door knobs are gold plated and its elevator cabs made of platinum.

I also heard of a new building which was appraised and erected on the assumption that it would be rented for twenty years at 100 per cent occupancy. That is a fallacy because our rental surveys show that the average vacancy of an office building is 10 per cent over a term of years. The first year a building does not average more than a 48 per cent occupancy. How can a building that is figured on a 100 per cent rental for twenty years prove a financial success?

It is necessary to amortise real estate bonds and mortgages, as buildings depreciate and neighborhoods often change for the worse. Amortisation charges should be paid out of earnings, and the principal on the mortgage or bond issue should be paid down as fast as the rate of depreciation of the improvements. It should be made certain that the property has sufficient earning power not only to meet its interest but to pay down the principal as well.

One argument that is offered to refute our statements is that amortization takes care of some of these over-appraisals that might be a little too generous and protect the bond holder. But how can amortisation be paid when there are no tenants, when no rent is coming in?

Surety Company Guarantees

FOR those investing in real estate securities, it has been said that surety company guarantees are a pretty good thing and that they protect the bond holders. However, I do not believe that real estate bonds,

insuring against failure or default, have been on the market for a sufficient length of time to determine their value. It had long been the practice of the "old line" mortgage houses to afford investors a guarantee of principal and interest, such guarantee being written by subsidiary companies formed especially for the purpose. The guarantee of real estate bonds by surety or insurance companies not subsidiary to the issuing house was an adaptation of this plan.

In some cases surety company guarantees may be all very well, but I advocate as safe building financing an investment bond issue secured by a first mortgage of not more than one-half of the real value of the property, plus a preferred stock issue of about one-quarter more, plus a speculative common stock issue for the remainder. This is a plan in the best interests of the building properties themselves and primarily in the interest of the security holders, the investing public, and finally for the good of the bankers and bond houses.

I condemn the schemes of financing the whole cost of building enterprises by bond issues, with a thin margin of ownership equity. It is unscientific, loaded with danger and riding for a fall. It necessitates future high rents, always to be maintained at the present high market. It foretells sudden changes of ownership and management at the next shrinkage which is bound to come. It unduly stimulates hasty and uneconomic construction and makes for wastefulness in erection costs. The building propositions which will endure are those with a greater margin of safety. This margin must be taken up by stockholders', not bondholders', money. In other words, we must face the necessity of greater elasticity in financing buildings. To accomplish this I advocate the plan of one-half bonds plus one-quarter preferred stock and the remainder common stock.

What is to be done in regard to this question of over-production? Why not take advantage of some of the existing statutes as was done in Chicago recently? Three officials of an office building corporation were brought to trial last February in Chicago for "issuance and sale of bonds secured on real estate, when the real estate is not worth enough to pay for the bonds." The Judge found this to be a violation of the Illinois Blue Sky Law. One of the men was sentenced to four months in jail and fined $1,000, and the other two were sentenced to thirty days and fined $500 each.

According to the Assistant State Attorney, the case set a precedent where sellers of bonds not sufficiently guaranteed by real estate were prosecuted under the Blue Sky Law. He said that it would be a warning to many large and small companies which were attempting to over capitalize the building industry.

I do not care to be put down as an alarmist, but with the constant business district shifting, with these excessive appraisals, and with the building of unneeded structures, there is something bound to happen, which may mean the loss of the investing public's confidence in real estate.

Tests to be Applied

BUT what are the tests that may be applied to determine whether or not an office building is needed in any city?

It is the judgment of the owners and managers of these structures from all parts of the country, as expressed in a resolution adopted by the recent convention of the National Association, that building operations for rental purposes should be entered upon and invested in only after five conditions have been satisfied:

1. That the normal growth of the city requires more space, and that vacancy now existing is insufficient to care for the normal demand for a period of two years;
2. That a vacancy survey has been made to see what competition is already in the field;
3. That a thorough study of the proposed building plans has been made by competent building managers to ascertain if the proposed building is economically suited to the purpose intended, and the probable cost of operating set forth;
4. That the proposed building is needed to satisfy a natural growth of the community, and can exist in a condition of solvency.
5. That statements based on the estimated income of such property have been carefully investigated, that attention has been given to the appraisal of the property and to the experience and standing of the appraisers; whether the fee title or a leasehold is the underlying security, and if the management of the property is to be in experienced hands.

Investing Assets

(*Continued from page 236*)

would show a proper position if its investments of depositors' funds stood: Cash, due from banks, exchanges, U. S. government securities, 25 per cent; other bonds, 10 per cent; loans and discounts, 65 per cent. These percentages, of course, are based on the theory that the loan and discount figure is in proper liquid condition.

As a matter of fact, the liquidity of a well-conducted bank is reflected in the condition of its loans and discounts. In easy money times, as well as in times of stress and over-expansion, it is the use to which the loans and discounts account is put that reflects the policy of the management and determines to what extent the bank is liquid.

As to whether 65 per cent is the proper percentage for loans and discounts, it appears rather significant that the average of 8000 banks is 65.88 per cent of deposits, and that 36 banks in central reserve cities show 63.86 per cent; 363 banks in reserve cities show 65.98 per cent; 7601 banks in outside communities show 66.85 per cent.

It is obvious that certain sections at specific periods of the year run considerably over this percentage and yet maintain a proper liquid position because of the fact that their loans and discounts are eligible at their Federal Reserve Bank.

The test of liquidity ordinarily will simmer down to policies and methods employed by the individual bank in granting credit and the attitude toward these loans after they have been made.

A questionnaire was addressed to the commercial banks to develop opinions as to policies and methods used to keep loans and discounts in a liquid condition.

To the question: "In granting preferential interest rates to borrowers, is eligibility of paper for discount with the Federal Reserve Bank an influential factor?" 31 answered "Yes," 6 "No," and 6 "Both."

Thirty banks carried commercial loans on a discount basis, two on an interest basis and eight on both.

Twenty-nine banks insist, as a general rule, that borrowers clean up every twelve months; fourteen "urge" them to do so, and a lone bank does not.

Fourteen banks state that on slow loans, as a general rule, they apply an increased renewal interest rate to stimulate the clean-up; twenty do not, and six respond that they do in some instances.

It was interesting to note that five banks consider four times a proper unsecured annual loan turnover; one bank says six times, and another thinks one turnover is adequate.

The provision for proper liquidity of loans and discounts rests really on basic principles. In granting credit, the loans should be made upon the basis that the chief purpose of the bank is to "maintain financial security and stability," and that there should be evident "sufficient security to insure prompt payment of interest and principal." There is always present the responsibility of returning to the depositor his funds.

After the loan is made and renewals are asked, then intelligent and firm persistency must be used to prevent freezing. The particular methods to be employed must rest with the individual banker.

Letters From a Banker to His Son

(*Continued from page 232*)

B. V. D.'s. As a matter of fact, you've got to be cold-blooded at times and have enough backbone to say "No!" occasionally or, I might say, frequently, otherwise you're mighty apt to have somewhat of a protracted visit from a representative of the Banking Department, and I'm not referring to the regular examination either. If you've got any impediment in your speech when it comes to saying "No!" the sooner you get out of the banking business and into some other line where the little word isn't needed, so much the better off you'll be.

Then there was another note I've thought about a good deal, but I can't seem to remember the maker's name just now. I think it was for $100, and when your directors asked you about it you admitted that you didn't think any too much of the borrower, but said you just had to make the loan because he was the business agent or something or other of the can fillers' union, and if you turned him down you'd lose the business of all of the union men in the factory.

In other words, you made a bad loan with your eyes open for fear you might lose a few customers if you didn't make it, and

right there is where you were looking through the spy glass wrong end to. I take it from what you told your board that this fellow is no good and that you don't expect to get your one hundred back. If this is true, and he is no good, there's no one knows it better than his union brothers at the factory, and the chances are when they find out you're loaning their money to fellows like that they'll begin to wonder just how many loans of that kind you've got in your bank, and they'll be a whole lot more liable to quit your bank on that account than if you had turned him down.

And another thing they're going to wonder about is just how much truth there is in the slogan, "Save safely here," that you've been using on the pay envelopes you've been supplying the canning factory with, and my guess is they'll come to the conclusion that their savings aren't so safe after all if you turn around and loan them out to such fellows as the one I've just mentioned.

There were ten or a dozen more of these small notes all pretty much the same, and I'll be surprised if you don't have trouble in collecting them. Of course they're all small amounts, but when you add them all together, and while you're at it you might as well include the Potter note, it may mean the difference between a dividend and a lot of disappointed stockholders, and you'll have to admit that it's a pretty good idea to keep them in good humor.

I imagine that by this time you've probably gathered the idea that I'm not altogether satisfied with some of the loans you've been making; anyway, that's the impression I meant to give you when I started in on this letter, and unless there's a decided improvement by the time your board meets again, it's more than likely you'll find yourself back here in Petersburg in your father's bank taking a sort of summer-school course in banking, so to speak. That would hurt my pride more than it would yours, but I'd rather have my pride skinned up a bit than to have the Clinton bank loaded up with a lot of these "frozen loans" you hear so much about today, and you've dead sure got a few that are not sweating any, or I'm no judge of credits.

Keep Your Losses Down

ONE thing you're going to have to bear in mind is that the banking business is in a class by itself. You've got just one thing to sell, your depositors' money, and you haven't any too much to say about what you get for it. As a matter of fact, rates are lower now than they've been for years, and the chances are they'll go still lower. And while interest rates are going down, the cost of running your bank is going up, and you haven't a whole lot to say about that either. So if you're going to continue in the banking business, and that's really the plan I had in mind when I sent you out to Clinton, you're going to have to keep your losses down, and you can't get very far along that line if you take on such loans as I've mentioned in this letter.

Some one has said that the easiest way to make both ends meet is to live on oxtail soup and pickled tongue, and if you look at it one way it sounds reasonable, but it won't work out in a bank. You may have a fine cut stone building, marble fixtures and all that and a fancy brass sign over your door, maybe a chime clock, but after the foam is all blown off your bank is no better than the notes in your wallet.

Speaking of notes just naturally reminds me of Pete Hazzard and a note he told me about several years ago. You know, Pete used to run a barber shop under the bank here when you were just a boy. Well, he was a thrifty sort of a chap and didn't confine his activities altogether to scraping chins and trimming whiskers. He was quite a trader and was always on the lookout for a horse or cow, a buggy, wagon, used car, in fact anything he could buy at a bargain and sell at a profit. He seemed to get a lot of pleasure out of telling me of his trades, and one time when I was in his chair he told me something of his experiences in Oklahoma, where he lived before coming up here. He said: "I owned a shop under the First National Bank down there and the president of the bank was a mighty good friend of mine. He used to help me with my trades, and I have often borrowed as much as two or three hundred dollars from him on my unsecured note. He seemed to think a lot of me and had a world of confidence in me; in fact, I owed him $200 when he sold his bank, and he reserved my note for himself."

Of course the Clinton bank isn't on the market, at least not now, but if it should be sold today the chances are that before the deal could be closed it would be necessary for somebody to "reserve" the Wash Potter note for himself, and maybe some of these canning factory fellows' notes too, and the reason I mention it here is that I want it clearly understood that the "somebody" will not be your father.

You can't let a man have your bank's money simply because he's a brother "Antelope" or belongs to your club, or because he sleeps in the same pew with you at church and expect to always get it back. You've got to judge a loan strictly on its merits and on the maker's ability to pay, and whenever you get away from these principles,

it's only a question of time until you'll have an invitation to run down to the Capitol and tell the Bank Commissioner why the notes shouldn't be charged out, and that'll be a sure sign that you're not running the kind of a bank I expected you to run when I sent you out to Clinton.

Affectionately your father,
JEROME BARTON.

P. S.—If you're going to have trouble with a borrower over a loan, the best time to have it is before the loan is made, otherwise you'll not only have trouble with the borrower, but later on you're mighty apt to have a little trouble with your Board of Directors as well.

Profits in Mining

(*Continued from page* 216)

them to reduce their overhead from what it would be had they closed down entirely, and that it saved their losing business to competitors. Moreover, stockholders wanted dividends, which could not properly be paid by a non-operating company. However, the best course for the mining stockholder in the long run is that if a metal cannot be sold at a profit because of temporary conditions it had better be left in the ground; it "keeps" there better than above ground.

Other people have regarded this continued sale of copper, including large exports, at less than cost of production as a vast waste of our natural resources, and such it was. The suggestion was advanced that the government establish control over the mining industry in order to check this exploitation, but this would be a far-reaching step quite contrary to American principles. Individual producers would doubtless have welcomed an arrangement to "cooperate" and thus limit output, as was suggested in the recent Federal Oil Commission's report, but feared that such action might be construed as a violation of our anti-trust acts and render them liable to prosecution. So the industry struggled on with curtailments here and there, but whenever prices began to show an improvement and the outlook brightened, production was stepped up and the situation thrown out of balance again.

At the present moment, due to unprecedented large shipments, stocks of refined copper have been worked down to the lowest figures in years, as shown on the second chart, and the industry is in a strong statistical position from that angle. It should be noted, however, that stocks of blister copper, for which statistics are available only since 1923, are still quite ample and at the beginning of September amounted to 259,593 short tons held by leading smelters and refiners in the United States and Chile, whose shipments run around 75,000 tons monthly. This situation would lead one to expect that while a moderate firming up in prices in the near future is not at all unlikely, the heavy stocks of blister and the excessive producing capacity will preclude any permanent substantial advance, unless the entire industry undergoes a change of policy. The demand from automobiles and building construction will probably run lighter this fall, and foreign pur-

chases are still restricted by conditions abroad.

Lead and Zinc

OF the other nonferrous metals, lead and zinc come next in importance. A rough calculation of the values, made by multiplying the 1925 production by average wholesale prices shows: Copper (including Chile) 2,127,308,000 lbs. @ 14.30c or $304,205,000; lead 1,325,000,000 lbs. @ 8.92c or $118,190,000; zinc 1,181,856,000 lbs. @ 7.66c or $90,530,000; gold 2,376,514 fine ounces @ $20.67 or $49,123,000; silver 65,722,720 fine ounces @ 69.07c or $45,395,000; aluminum 144,100,000 lbs. @ 27.19c or $39,181,000.

Lead is mined commercially in sixteen different states but the bulk of production comes from the four states of Missouri, 30.5 per cent, Utah 24.3 per cent, Idaho 18 per cent and Oklahoma 11.4 per cent, together making 84.2 per cent. The United States contributes 40 per cent of the world's total, the other leading countries being Mexico, Australia, Spain and Canada.

The largest uses for lead are in storage batteries and as white lead, red lead and litharge for the paint trades, after which come cable coverings, building, solder, bearing metal, lead foil, ammunition, typemetal, automobiles and railway equipment. Demand has shown a steady increase during the last few years but production has also been heavy. During the summer a curtailment of operations both at mines and refineries has strengthened the statistical position of the metal and prices have recovered from the slump early in the year and will doubtless continue firm. However, any attempt to force them much higher would probably be reflected in heavier offerings of the metal, as both production and reserve supplies are ample for current needs.

The mainstay of zinc demand is for "galvanizing" steel, either by dipping or electrolysis, in the manufacture of sheets, tubes, wire and other shapes, also in brass making (alloyed with copper) and as pure sheet and strip zinc, and in paints and numerous chemical compounds for medicinal purposes.

In this metal, also, the preëminence of the United States is shown, 47 per cent of the world's production coming from this country, principally Oklahoma, Illinois and Pennsylvania. The leading foreign fields are Belgium, Poland, France, Germany and Australia.

Tin, Nickel and Aluminum

NORTH AMERICA contains no deposits of tin to speak of, the main sources of supply being the Federated Malay States in the Far East (31 per cent), also the Dutch East Indies (22.5 per cent) and Bolivia, South America (22 per cent). The manufacture of tin plate for cans, etc., is of course the principal use, with solder (mixed with an equal part of lead) next. The central market is in London and a reference to the chart of prices shows that pig tin has the distinction of scoring the greatest advance in the last five years, having more than doubled in price. The record American consumption has reduced stocks both here and abroad and there seems little reason to expect any considerable downward movement in prices, although quotations are accustomed to sharp minor fluctuations continuously.

The "rust-proof" qualities of the nonferrous metals which make them valuable as a coating for iron and steel are also found in nickel, which is also used largely as an alloy with steel in structural shapes, machinery and tools of every description, and automobiles. The pure malleable nickel in sheet form is used wherever corrosion would destroy other materials, such as in the chemical industry, laundries, hospitals, power plants, marine equipment, food preserving and packing, dairying, paper making, textile converting, and restaurant fixtures, to enumerate only a few.

The nickel deposits are largely in Canada and the ores usually contain copper also. International Nickel Company is the leading producer, controlling a large share of the world's reserves and marketing the metal in the form of ingots, sheets, bars, wire, etc. "Monel-metal," a natural alloy of nickel and copper, is in growing demand. Many of the diversified uses mentioned above have been developed by the company since the war to take the place of armor plate and guns on battleships which up to that time had furnished the principal demand. This change naturally was a slow process, and came only after an extended period during which substantial deficits were suffered and no dividend paid on the common stock from March 1, 1919 to September 30, 1925, but the success which has now been achieved will be appreciated by a reading of the last

few quarterly statements of earnings.

Aluminum, because of its light weight combined with high tensile strength, is essential in aircraft, automobiles, machinery, kitchen utensils, etc. It occurs in practically all clays and is almost the most plentiful metal there is, forming about 8 per cent of the earth's crust. But due to other elements with which it is usually combined it cannot be smelted like other metals or refined by electrolysis of solutions of its salt. It is usually treated chemically to change it into an oxide of aluminum, then put into an electric furnace with a compound which comes from Greenland and is expensive but which is said to have recently been produced cheaply by Swedish chemists. Aluminum used to cost ten times what it does now but with the discovery of better methods of extraction and wider uses, it may some day largely replace iron.

The leading producer in this field is the Aluminum Company of America which has large deposits in northern United States and Canada and utilizes water power on the St. Lawrence River for the operation of its plants and furnaces. The present price is around twenty-seven cents per pound, which is relatively much cheaper than copper, weight considered, for aluminum has a specific gravity of only 2.6 times water while copper is 8.7, so that an equal volume of copper would weigh 3.35 pounds and cost fifty cents.

Gold Mines and Deficits

THE table given at the beginning of this article might create the impression that earnings of several million dollars are common for mining companies, but on the contrary they are the rare exceptions, as a study of the statistical reports on income published by the Treasury Department will prove. Following are the official figures taken from the last five reports, the latest available being for the year 1923. They show for mining, smelting and refining companies the number of corporations reporting net income and their aggregate net income; also the number of corporations reporting no net income and their aggregate deficits. The income figures are before provision for taxes.

Net Profits or Losses of Metal Mining, Smelting and Refining Corporations

From Reports of Treasury Department

	Reporting net income		Reporting net deficit	
	Number	Amount	Number	Amount
Copper mining				
1919	29	$10,490,792	212	$10.051.758
1920	22	3,415,944	162	24,553,886
1921	12	141,924	137	51.973,346
1922	11	418,881	99	33,132,906
1923	24	22,813,986	128	10,958,016
Lead and zinc mining				
1919	35	9,502,566	157	2,695,184
1920	26	5,106,817	97	3,893,447
1921	20	1,451,570	107	3,497,993
1922	45	11,981,470	72	1,819,947
1923	57	10,718,652	80	2,665,044
Gold, silver and precious metals mining				
1919	122	5,195,635	394	10,829,985
1920	83	3,386,714	438	12,381,079
1921	73	3,449,032	377	12,058.176
1922	76	6,174,181	291	13,634,239
1923	82	5,533,119	382	9,925,262
Base metals (not including iron) smelting, refining, etc.				
1919	490	54,015,673	133	4,878,955
1920	475	38,803,872	236	6,630,385
1921	267	16,739,785	482	22,909,602
1922	527	38,499,912	323	8,638,682
1923	541	70,166,854	307	5,205,426
Precious metals, smelting, refining, etc.				
1919	505	26,285,275	62	343,542
1920	491	16,092,769	174	3,187,301
1921	316	5,885,145	389	8,591,028
1922	423	10,862,172	296	4,148,616
1923	495	13,506,766	268	2.363,585

These figures indicate that the companies engaged solely in mining the precious metals have their earnings more than offset each year by the deficits of unsuccessful companies, while those producing the precious metals as a by-product of copper, lead and zinc fare much better.

Gold mining may be the royal road to wealth in fiction, but in practice it more often leads to deficits, assessments and reorganizations. A stock salesman never points out to a prospective purchaser that for every gold or silver mine making any income at all, there are four other mines running at a loss.

It will be observed that the earnings of the companies engaged in smelting, refining, etc., make a much more favorable showing than those in the mining branch of the industry. This improves the income statements of the large, integrated organizations which publish consolidated figures covering all of their subsidiaries.

What Detroit Discovered About Tear Gas!

THE VALUE OF FEDERAL TEAR GAS WAS CONVINCINGLY PROVED IN DETROIT, SEPTEMBER 18th

Federal Tear Gas Routs Bank Bandits Prevents Shooting

DETROIT, Sept. 18.—Routed from one branch bank here Saturday by tear gas, two bandits traveled six blocks and successfully held up another bank, escaping with an estimated $3000 loot.

The two robbers entered the first branch bank shortly before 11 o'clock. Both drew their guns, one walking to the manager's window, and the other yelling to Miss Helen Stanley, a customer, to "put 'em up."

TWO armed robbers entered the Kircheval Ave. Branch of the Commonwealth-Federal Savings Bank. One walked to the manager's window and demanded his cash. The other held his gun against a woman customer.

Dropping out of sight the manager touched the gas foot-control. Results were instantaneous; the robbers staggered, groped their way to the door, blinded by the stinging effects of the gas.

Within an hour they appeared at a nearby bank that has no gas protection, made a successful haul—and getaway;

At the first bank there was no panic—no shooting. It was all over quicker than it takes to tell it. No one injured—bank funds intact. Neither employes nor customers were incapacitated. A few minutes in the open air and their eyes were normal.

This is good news to the hundreds of banks that enjoy the protection of Federal Tear Gas.

It is of even greater interest to those that do not have it.

No bank bearing our sign has ever had a successful daylight robbery. A Federal Tear Gas installation does not mar the architecture of your bank. It is inexpensive to install and is the most modern bandit proof protection product.

Write today for full information about this modern, successful defence.

FEDERAL LABORATORIES, Inc.

1631 Liberty Avenue **Pittsburgh, Pa.**

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How Iowa's Banking Board Helps

By L. A. ANDREW

Superintendent of Banking for Iowa

THE Iowa state legislature, at its session in the spring of 1925, passed a law putting into effect the State Banking Board, composed of five members, of which the Superintendent of Banking is ex-officio a member and chairman. The four members are appointed by the Governor. The term of office of each member of the Banking Board is contemporaneous with the term of office of the superintendent. They do not receive any salary except per diem and expenses.

Meetings are held regularly once each month at the office of the Superintendent of Banking, and special meetings are called when necessary. The law provides: "Said board shall act in connection with the superintendent in an advisory capacity concerning all matters pertaining to the conduct of the banking department and the administration of the Iowa banking laws."

GOVERNOR HAMMILL appointed the new Banking Board soon after the present superintendent took office in July, 1925. The members are as follows: L. A. Andrew, chairman, Superintendent of Banks, Des Moines; John H. Hogan, president Des Moines National Bank, Des Moines; E. W. Miller, president Commercial National Bank, Waterloo; Ray Nyemaster, vice-president American Commercial and Savings Bank, Davenport, and C. J. Wohlenberg, president Holstein Savings Bank, Holstein. They were chosen from different sections of the state, particularly for their general high standing and their knowledge of banking conditions.

In practical operation, we have found the Banking Board to be of much help in numerous trouble situations which have come up during the past year. Soon after the Banking Board was appointed, all new charters were ordered referred to it, and the members have handled this part of the work all during the year.

Different requirements have been set out for these new charters. While the banking laws of the state provide that new banks can be organized with $10,000 capital, the Banking Board has made a ruling requiring a minimum capital of $25,000. No application is considered unless there is a real need for the bank in the community and every prospect of its being a success. All the stockholders in new banks have been required to show that they are worth at least twice the amount of stock subscribed, and the officers chosen have had to make a showing that they have had the necessary experience and are qualified to conduct a bank in a successful way. The members of the Banking Board have assisted as individuals in their respective territories by taking up and helping to solve specific banking troubles.

Every month at their meetings they have gone over with the superintendent all trouble cases, and their advice has been invaluable. Many times in making adjustments where there was any dispute between the department and the bank, our men, under instructions, have offered to have the matter referred to the Banking Board, if desired. In a large percentage of instances this has been agreed to and has left a much better feeling regarding matters which were in question.

THE fact that the Banking Board was reviewing most of these trouble cases has also had a stabilizing influence and has helped the department in its work. Several times the banking department has sent a member of the Banking Board to a certain point to adjust difficulties. They have also aided in bringing about consolidations that seemed to be desirable.

The Banking Board has proven very helpful to the department in many ways, particularly in the handling of new charters; making rules for better banking not covered by our banking laws, and in general have been of great help to the superintendent in handling a large number of trouble cases.

Can the Small-Town Bank Survive?

(*Continued from page* 204)

of casually uttered criticisms of one who chances to be related to the interlocutor by marriage. The difficulties experienced by outsiders with this phase of small-town life are a constant source of amusement to the natives.

Through membership in lodges, churches, civic organizations and the like, the local banker has another hold on his customers which is denied to the non-resident. Small-town citizens are clannish, and they will overlook many imperfections for the sake of doing business with a fellow lodge member or a brother officer of the Kiwanis Club.

We fellows out here can even listen with tolerance to the customer who advocates the election of a wild-eyed senatorial candidate, let us say—knowing, as we do, the grievances and resentments which render it possible for such a candidate to make a successful appeal to the voting constituency. Under the same circumstances the banker out of touch with rural sentiment would probably resort to the tossing of inkwells in support of his side of the argument, would lose a good customer, while at the

same time leaving the poor fellow in a more recalcitrant frame of mind than ever.

Coming Back Strong

THE agricultural depression has been hard on the small banks of the Middle West, but it has not sounded their death-knell—not by any means. Those of the fraternity who have succeeded in weathering the storm have a stronger hold than ever on their constituency, and in most cases are in a stronger economic position than ever.

Is Federal

(*Continued from page 219*)

short haul business." Illinois Central—"Passenger revenue decreased 3.16 per cent. There were increases in long distance travel which were more than offset by the decrease in local travel." Chicago & North Western—"Careful analysis of the cause for the passenger decrease has been made and it is interesting to know that the percentage of decrease is all in the short haul business." Missouri Pacific—"Passenger revenue decreased 5.64 per cent." Chicago, Burlington & Quincy—"We carried 6.6 per cent less revenue passengers than in 1924, on account of the greater use of privately owned and publicly operated motor vehicles." Norfolk & Western—"Number of passengers carried decreased 15.61 per cent." Buffalo, Rochester & Pittsburgh—"Passenger revenues decreased 11.44 per cent." Missouri-Kansas-Texas—"Passenger train revenues decreased $1,132,011 due to constant increase in bus and automobile competition." Chesapeake & Ohio—"Passenger revenues decreased 11.3 per cent."

The railways favor regulation of the motor bus. They want regulation which will prevent "fly-by-night" bus operators from competing with them in fair weather and quietly withdrawing from the field in foul. They want the rates charged by the bus operators uniform. They want the buses taxed amounts commensurate with their use of and damage to the highways, and so on. In a word, the steam railways want the same protection from motor bus competition that the street railways demanded from the jitney.

Bus Regulation Coming

ANYONE who has followed the hearings of the Interstate Commerce Commission in the motor transport investigation cannot but be convinced that regulation of the motor bus by the Interstate Commerce Commission is inevitable. Opposition to the regulation of the bus is almost non-existent. Only a few smaller bus operators, who have felt that regulation might impose upon them an expensive burden which their small size could not carry disapproved it. On the other hand, representatives not only of the railways and of the state public utilities commissions but also of the larger bus companies and of the associations of manufacturers of buses, including the National Automobile Chamber of Commerce and the American Automobile Association, testified strongly in favor of regulation.

That there will be regulation, therefore, seems to be assured. The only question remaining to be settled is the form of the regulation which will be adopted and the degree of its completeness. The form of the regulation will probably be similar to the regulation prescribed for the railways, i. e., requirements for certificates of convenience and necessity to engage in or expand operations, safety, the rendering of reports on operations and so on.

The administration of any regulatory laws that may be passed probably will be carried on by the Interstate Commerce Commission through the agency and with the assistance of the state commissions. The plan which seems to have the most general approval is that advanced last year by the National Association of Railway and Utilities Commissioners, which proposed that regulation of the buses under the Interstate Commerce Commission be carried out by the state commissions individually in the case of intrastate operations, by joint commissions of two or more states in the case of interstate operations, and by appeal for final ruling to the Interstate Commerce Commission, itself, in case of disputes between two states. This plan would relieve the Interstate Commerce Commission of a vast amount of detail work which it is scarcely equipped to handle with its present personnel.

Motor Trucks Excluded

REGULATION of the motor bus is confidently anticipated. It will almost surely come to pass within a very short time unless bus regulation becomes involved with truck regulation. If motor bus regulation is considered by itself, it should meet with little opposition. On the other hand, if it is not considered individually but is lumped in with the consideration of regulation of motor transport in general, including motor truck transportation, it may be indefinitely postponed, for motor truck regulation is a wholly different matter. There is widespread opposition to it, not only among the truck men themselves but even among shippers.

It was this opposition to truck operation that prevented the passage of the legislation designed to regulate motor transportation which was introduced in the last session of Congress at the behest of the National Association of Railway and Utilities Commissioners. There will be a hard fight before any legislation regulating both bus and truck operations can be passed in Congress.